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Institute of Education Sciences

Financial Accounting for Local and State School Systems: 2014 Edition

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Financial Accounting for Local and State School Systems: 2014 Edition

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Preface

This handbook is one in a series of data handbooks published by the National Center for Education Statistics (NCES). It continues a half-century's tradition of sharing the best practices in data collection and reporting with the schools, school districts, and state agencies that are our partners in providing good information to manage, assess, and guide elementary and secondary education.

In addition to this volume, NCES has produced the Handbooks Online tool to improve the consistency of data definitions and data maintenance, so that education data can be more accurately aggregated and analyzed. Handbooks Online contain data items, definitions, and a system of data item codes at the student, staff, school, school district, and state levels. The Handbooks Online tool is updated as needed and is available at http://nces.ed.gov/programs/handbook/.

The data handbooks do not include every possible data element. They are intended, rather, as a set of data element definitions and suggestions for structuring a report or an electronic record system. However, every attempt has been made to include all of the data elements routinely required for federal education reporting. The rationale for this is that if these items are part of a comprehensive information system used for the daily management of schools and districts, they can be reported with minimal additional burden on teachers and principals.

NCES and representatives of state and local education agencies, as well as members of the research and statistical communities, have worked together through the National Cooperative Education Statistics System to improve the quality and comparability of data used for education policy decisions at all levels of government. This handbook, like the other data handbooks published by NCES, was written through the efforts of education professionals from a range of backgrounds. Their input ensures that such products are useful for managing the daily business of schools and districts as well as for identifying the information needed for program monitoring and statistical purposes.

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Acknowledgments

The 2014 edition of *Financial Accounting for Local and State School Systems* updates the 2009 and 2003 editions of the handbook. The 2003 edition was the work of the NCES National Forum on Education Statistics, Core Finance Data Task Force. That task force systematically rewrote nearly the entire text, incorporating new chapters and reviewing and revising the account code structure and account code definitions. The 2009 edition of the handbook incorporated changes resulting from the issuance of GASB Statements 40 through 47. This edition incorporates changes resulting from the issuance of GASB Statements 48 through 70.

NCES would like to thank all of the accountants and data coordinators in the state education agencies who have used previous editions of the handbook and have provided advice on improving and updating this edition. In particular, NCES would like to thank Peggy O'Guin and Christine Davis of the California State Department of Education; Su McCurdy and Janice Evans of the Iowa State Department of Education; Glenda Rader of the Michigan State Department of Education; and Vaughn Altemus of the Vermont State Department of Education.

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Chapter 1: Introduction

The 2014 edition of the National Center for Education Statistics (NCES) handbook *Financial Accounting for State and Local School Systems* reflects changes in accounting and financial reporting guidance that have been made since the 2009 edition was released. The handbook will receive periodic updates to ensure that contemporary issues are regularly incorporated into the accounting guidance for schools. The online version can be found at http://nces.ed.gov/pubsearch/pubsinfo.asp?pubid=2014-347.

This handbook represents a national set of standards and guidance for school system accounting that incorporates relevant guidance from the Governmental Accounting Standards Board (GASB) Statements (through Statement 70). Its purpose is to help ensure that public elementary and secondary education finance data are reported comprehensively and uniformly. To be accountable for public funds and to assist education decisionmakers, all school financial reports need to contain the same types of financial statements for the same categories and types of funds. This revised and restructured guidance focuses on the following:

- defining account classifications that provide meaningful financial management information for its users;
- complying with Generally Accepted Accounting Principles (GAAP) established by GASB;
- recognizing the changes that have taken place in technology, safety, and security; and
- supporting federal reporting requirements.

The statutes and regulations regarding school accounting differ from state to state. These differences may require states, school districts, and schools to adapt the guidance that appears in this handbook. However, consistent practices and terminology are critical to accountability for government funds. The accounting methods used must be capable of producing financial reports that conform both with GAAP and with the legal requirements of each state, if they differ.

Guidance regarding the use and reporting of finance data can be found in the *Forum Guide to Core Finance Data Elements* (National Forum on Education Statistics 2007). That publication includes a review of the federal datasets containing finance data, commonly reported finance measures, and performance indicators.

Major Changes and Chapter Highlights

The 2014 edition of the handbook maintains the general style and format of the 2009 edition. The following is a summary of the topics covered in each chapter.

Chapter 2: Financial Reporting Within a System of Education Information

This discussion of the role of the fiscal data system in education management and policymaking includes an examination of the advantages of aligning the fiscal data system with a comprehensive information system as well as an overview of the users of school finance information.

Chapter 3: Budgeting

This chapter describes budgeting methods and budget preparation, including capital budgeting for governmental entities. It addresses budgetary approaches and responsibilities, financial forecasting, and special budgeting practices, such as those for multiyear construction projects.

Chapter 4: Governmental Accounting

This chapter provides descriptions of accounting systems and requirements for governmental accounting systems to provide information on internal control practices, as well as the information on fund-level reporting and government-wide reporting required by GASB Statement 34 and related statements.

Chapter 5: Financial Reporting

This chapter outlines the major financial statement elements and reporting requirements for governments. As in previous editions, it includes the most significant additions and modifications to financial reporting that are covered in the handbook. In particular, there are significant changes related to GASB Statement 51, *Accounting and Financial Reporting for Intangible Assets*; GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*; and GASB Statement 65, *Items Previously Reported as Assets and Liabilities*. These statements will have the most extensive impact on school districts of any of the GASB statements issued since the 2009 edition.

GASB has issued a significant number of new statements that have either become effective since the publication of the 2009 edition or that will become effective within the next several years. The statements with direct relevant impact on governmental entities that are referenced in this edition are as follows:

- GASB Statement 51, *Accounting and Financial Reporting for Intangible Assets*
- GASB Statement 52, *Land and Other Real Estate Held as Investments by Endowments*
- GASB Statement 53, *Accounting and Financial Reporting for Derivative Instruments*
- GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*
- GASB Statement 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*
- GASB Statement 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*

- GASB Statement 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*

- GASB Statement 61, *The Financial Reporting Entity: Omnibus—An amendment of GASB Statements No. 14 and No. 34*

- GASB Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*

- GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

- GASB Statement 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—An Amendment of GASB Statement No. 53*

- GASB Statement 65, *Items Previously Reported as Assets and Liabilities*

- GASB Statement 67, *Financial Reporting for Pension Plans—An amendment of GASB Statement No. 25*

- GASB Statement 68, *Accounting and Financial Reporting for Pensions—An amendment of GASB Statement No. 27*

Although all of these statements have the potential to affect the accounting and financial reporting practices of the governmental entities that use this handbook, those with the most significant effects—and which are therefore highlighted in this edition—are as follows:

- GASB Statement 51 provides definitive guidance on the accounting and financial reporting of intangible assets. Although much of the guidance simply codifies what had been generally accepted practice, it marks the first time that governmental GAAP directly addresses the specific issues of internally generated assets. (Effective for financial statements beginning after June 15, 2009.)

- GASB Statement 53 provides accounting and financial reporting guidance for governmental entities that have derivative instruments. The vast majority of governmental entities that utilize this guide as a resource will, in all likelihood, not be affected by this standard, but it should be noted as a potential resource if circumstances warrant. (Effective for financial statements after June 15, 2009.)

- GASB Statement 54 has the most significant impact on governmental entities of any of the standards identified. Any governmental entity that reports governmental funds is affected by the requirements of this standard. The primary effects are twofold. First, the official definitions of the general fund, special revenue fund, debt service fund, capital projects fund, and permanent fund have been clarified. In some cases, these changes may necessitate

a change in the use of certain fund types by some governmental entities. The second, and more far-reaching, impact of this statement is the complete change in the fund balance classifications used by governmental fund types. The new approach classifies fund balance based on constraints imposed on the *resources* reported in governmental funds, as opposed to the historical approach of classifying fund balance based on its availability for appropriation. (Effective for financial statements beginning after June 15, 2010.)

- GASB Statement 55 codifies the governmental GAAP hierarchy within the GASB literature. While this does not change the governmental GAAP hierarchy, it is no longer referenced only within the American Institute of Certified Public Accountants (AICPA) auditing standards.

- GASB Statement 61 is primarily an update of GASB Statement 14, *The Financial Reporting Entity,* and modifies certain requirements for inclusion of component units in the financial reporting entity. GASB Statement 61 is required to be implemented for fiscal periods that begin after June 15, 2012, although earlier implementation is encouraged. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship must now also exist between the primary government and the organization for it to be included as a component unit. Also, the standard slightly amends the criteria for blending component units. For component units that are blended because their governing bodies are "substantively the same," there is a further requirement that either (1) the primary government and the component unit have a financial benefit or burden relationship, or (2) management (not the elected officials) of the primary government have operational responsibility for the activities of the component unit. In addition, blending will now be required if the resources of the primary government will be used to repay all or a substantial portion of the component unit's outstanding debt.

- GASB Statement 62 simply incorporates into GASB's authoritative literature certain accounting and financial reporting guidance issued either by the Financial Accounting Standards Board (FASB) or the Accounting Principles Board or found within the Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure before November 30, 1989. This furthers GASB's efforts to codify relevant governmental GAAP. As such, it has no practical effect on the accounting or financial reporting guidance contained within. It should be noted, however, that this standard allows entities to continue to apply, as does other accounting literature, post-November 30, 1989, FASB pronouncements that do not conflict with or contradict GASB pronouncements. (Effective for financial statements beginning after December 15, 2011.)

- GASB Statement 63 is required to be implemented for fiscal periods that begin after December 15, 2011. This standard provides financial reporting guidance for "deferred outflows of resources" and "deferred inflows of resources." These terms are defined as a consumption of net assets applicable to a future reporting period and an acquisition of net assets applicable to a future reporting period, respectively. These elements are reported apart from assets and liabilities and, as such, are incorporated into the components of

equity. Formerly, such equity was referred to as net assets. The measure will now be referred to as "net position." Although very few transactions are subject to classification as deferred inflows or outflows by this standard, the change in equity terminology will affect all proprietary funds and government-wide activities. Likewise, GASB Statement 65 (described below) significantly affects the use of these classifications.

- GASB Statement 65 is required to be implemented for fiscal periods that begin after December 15, 2012. However, many governments nationwide are opting for early implementation of the standard to ensure reporting comparability. The statement primarily addresses the proper reporting of assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The guidance substantively builds on the framework of deferred outflows of resources and deferred inflows of resources as defined in GASB Statement 63. Specifically, the statement reclassifies as deferred inflows or outflows of resources certain items that were previously reported as assets or liabilities and recognizes as outflows or inflows of resources certain items that were previously reported as assets or liabilities. As such, the standard directly impacts both fund reporting and government-wide reporting.

- GASB Statement 68 is required to be implemented for fiscal periods that begin after June 15, 2014. It is one of two recently issued statements (the other being GASB Statement 67) that update accounting and financial reporting standards for pension plans, as well as for employers that offer such plans. The standard is an update of GASB Statement 27 and will affect all state and local government entities that offer defined benefit pension plans and defined contribution pension plans. Actuarial processes, the allocation of an employer's share of a net pension liability, and various note disclosure modifications will be the main areas of impact of this statement on employer governments. This publication has historically not extensively addressed accounting and financial reporting for pensions; therefore, only the primary reporting implications will be addressed.

In addition, GASB (http://GASB.org) has issued several other statements in the past few years, but they are not expected to have a significant impact on the governmental entities that use this handbook: GASB Statement 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies;* GASB Statement 59, *Financial Instruments Omnibus;* GASB Statement 60, *Accounting and Financial Reporting for Service Concession Arrangement*; GASB Statement 66, *Technical Corrections – 2012—An Amendment of GASB Statements No. 10 and No. 62;* GASB Statement 69, *Government Combinations and Disposals of Government Operations;* and GASB Statement 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees.*

Finally, this chapter also addresses E-Rate. E-Rate is a discount available to schools and libraries for telecommunications services such as internet access and wiring for access. Although GASB has not specifically addressed this issue, this handbook provides an overview of how E-Rate works and general guidance on its accounting and financial reporting implications.

Chapter 6: Account Classification Descriptions

This chapter provides account codes. Descriptions of governmental fund types have been altered, and there are new fund balance codes to agree with the guidance from GASB Statement 54. Intangible asset codes have been added to the balance sheet accounts and object codes. A detailed list of account code changes is presented in appendix A.

Chapter 7: Cost Accounting and Reporting for Educational Programs

Equity and accountability issues have expanded the need for cost information at the school and program levels. This chapter presents cost accounting methods and examples of the use of existing data systems to provide this information.

Chapter 8: Activity Fund Guidelines

This chapter addresses the complex issues surrounding student activity funds. It distinguishes different types of activity funds and provides guidance on how to classify them. The chapter gives initial guidance for improving controls over, and for accounting for and reporting, these funds. The requirements of the most recent GASB standards are also addressed.

Chapter 2: Financial Reporting Within a System of Education Information

This chapter examines the advantages of a fiscal data system that is part of a comprehensive education information system. It also describes useful applications of education information and identifies frequent users of school finance information.

Background

The successful management of any large organization requires the effective use of information. Information about education ranges from staff and student information to financial information at the school facility and program levels. A comprehensive education information system can provide benefits such as the following:

- **Better decisionmaking.** Good information helps drive good decisions. An information system can make good decisionmaking possible for school-based administrators as well as for external users of education information.

- **Ability to target specific areas for improvement.** Timely and accurate data can help decisionmakers at all levels focus on improvement strategies.

- **Ability to examine wide-ranging goals.** Disaggregating data for analysis helps identify programmatic and fiscal inequities and determine baselines for improvement.

- **Timely and complete program evaluation.** To be effective, program evaluation must be timely as well as complete. When program and other data are compiled and linked in a well-designed information system, the goals of schooling can be met more effectively and efficiently.

- **Greater budgetary control.** Greater budgetary control is possible when all of the costs of school operations are available.

- **Improved administrative efficiency and mandated reporting.** Building core databases around data elements of the National Center for Education Statistics (NCES) Common Core of Data (CCD) provides comparability and can improve administrative efficiency and facilitate mandated reporting. The CCD is a data collection compiled from the administrative records of state education agencies. It includes nonfiscal data on public elementary and secondary education at the school, school district, and state levels and finance data on public elementary and secondary education at the school district and state levels.

The benefits of a comprehensive information system become especially apparent when examining the relationship between programs and costs. To make appropriate, cost-effective, and timely decisions about students, schools, and programs, accurate and complete information must be widely available to the many users of education data, such as the research community, school administrators, school boards, policymakers, school improvement teams, creditors and potential

creditors, and the general public. A comprehensive information system allows a complete, accurate, and timely display of the distribution and use of resources.

The value of a comprehensive information system also becomes evident when examining the distribution of resources (fiscal equity) and the use of those resources (productivity)—two of the major foci of school financial accounting information. Since 1971 (*Serrano v. Priest,* 487 P.2d 1241 [1971]), legal challenges to state school finance systems have required states to revise funding formulas to better ensure equitable funding among school districts, and those same challenges have forced states to attempt to define what constitutes an adequate education. The assumption that a more equal distribution of resources will lead to increased equity in the uses of finite resources continues to be debated—in the courts, in the media, and among the general public.[1]

School financial accounting systems are an important source of information on the costs of an equitable and adequate education in each school district. Recently, the emphasis on accountability has turned the spotlight on school achievement, with the focus on how much it costs to achieve a minimally acceptable level of educational performance for all students. The clear trend is to understand fiscal and programmatic data in terms of the particular needs of specific groups, such as students with disabilities, students with limited proficiency in English, and students from economically disadvantaged families (Reschovsky and Imazeki 1997, p. 144).

Although conceptually it is convenient to maintain a separate financial system with well-defined elements, most of the operational and policy questions that need to be answered rely heavily on data that cross into areas other than finance. Thus, definitions of school financial data must align with other aspects of the education information system. An aligned and comprehensive education information system should provide the data necessary to answer the following key questions:

- How much is spent on education?
- Who pays for education?
- How are funds allocated?
- How are educational resources linked to student achievement?

To answer these questions, an education information system requires more than a finance component; it also requires a student records system, a staff records system, a property system, a curriculum or program component, and a community services component. Instructional management systems can be linked to student records systems to provide policymakers with greater analytical capability to make appropriate, cost-effective, and timely decisions.

A data system that can support these complex conditions places a premium on standardization. Standardization is critical if the operations of one school district or state department of education

[1] For an overview of court cases involving issues related to education reforms, see *Overview and Inventory of State Education Reforms: 1990 to 2000* (Hurst et al. 2003).

are to be compared over time or with those of another, or if data from the operations of many school districts or state departments of education are to be consolidated for comparison.

Education data collected nationally by the federal government provides a facet of this standardization by ensuring data comparability. For example, NCES collects public education finance data through the National Public Education Financial Survey (NPEFS) and the School District Finance Survey (F-33).[2] The NPEFS, which is part of the CCD, began data collection in the 1981–82 school year. Data from the F-33, which is part of the U.S. Census Bureau's Annual Survey of Local Governments, are also included in the CCD. NCES works with the Census Bureau to ensure that all school districts are included in each year's F-33 collection. The data items in both the NPEFS and the F-33 are based on the account codes presented in chapter 6 of this handbook.[3]

Finance data collected annually from state education agencies through the NPEFS are used in the formula for allocating Title I and other federal grants to school districts, as specified under Section 153(a)(1)(I) of the Education Sciences Reform Act of 2002, which authorizes NCES to gather data on the financing of education. In addition to finance data, the NPEFS collects average daily attendance data. Average daily attendance is the denominator in the average state per pupil expenditure figures required by the Title I legislation. Because these data are used in the allocation formula, established deadlines, definitions, and editing procedures are rigidly enforced. Survey deadlines are announced in the *Federal Register*, and definitions are based on the account codes and finance item definitions presented in this handbook.

Useful Applications of Education Information

As measured in total funding or in number of people employed, education is the largest policy arena for state and local governments, with growing interest at the federal level. Therefore, the potential value of data on education is enormous.

The demand of policymakers at the local, state, and federal levels for high-quality data and outcome measures with which to evaluate fiscal and programmatic policy changes drives the need for data systems to become increasingly comprehensive. For example, the financial reports of state and local education agencies are used to compare actual financial results with legally adopted budgets; to assess financial conditions and results of operations; to assist in determining compliance with finance-related laws, rules, and regulations; to assist in evaluating the efficiency and effectiveness of processes; and in planning.

The Governmental Accounting Standards Board (GASB) defines financial reporting as the means of communicating financial information to users (GASB Concepts Statement 1, Paragraph 62).

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[2] NCES is the primary federal entity for collecting, analyzing, and reporting data related to education in the United States and other nations. NCES is a branch of the Institute of Education Sciences in the U.S. Department of Education and is authorized to collect data by Congress through the Education Sciences Reform Act of 2002 (P.L. 107-279), 20 U.S.C. 9543.

[3] Additional information on these surveys, including instructions for completing them, can be found on the websites listed in appendix B.

For this communication to be effective, financial information must have the following basic characteristics:

- **Understandability.** Information should be clear, but not oversimplified. Explanations and interpretations should be included where necessary.

- **Reliability.** Information should be verifiable and free from bias. It should be comprehensive; thus, nothing should be omitted that is necessary to accurately represent events and conditions. However, nothing should be included that might cause the information to be misleading.

- **Relevance.** There must be a close, logical relationship between the information provided and the purpose for which it is needed.

- **Timeliness.** Information should be available soon enough after the reported events to affect decisionmaking.

- **Consistency.** Once a principle or a method is adopted, it should be used for all similar events and conditions. If a change is made, the nature of and reason for the change, as well as its effects, should be explained.

- **Comparability.** Procedures and practices should remain the same across time and reports. If differences occur, they should be due to substantive differences in the events and conditions reported rather than because of arbitrary implementation (GASB Concepts Statement 1, Paragraphs 63 through 68).

These standards imply wide uses of data and require carefully designed policies to help guide decisions about control over the use of an information system. Some policies are codified in laws or regulations; others are official statements, executive orders, or agency directives. Government policies on information systems are guided by two complementary, but sometimes conflicting, purposes: stewardship and usefulness. Stewardship encourages policies that regard government information as a public good, such as personal privacy and records management, whereas usefulness promotes policies that encourage the dissemination of information to improve the quality and lower the cost of government services, such as public access and interagency information sharing. *Stewardship* policies address confidentiality, information security, data quality and integrity, and long-term preservation of information. *Usefulness* policies address interagency and intergovernmental sharing, public access, public-private information partnerships, and reuse of information.

Furthermore, technological advancements such as the Internet have made policy issues concerning data appropriateness, privacy, and ethics as they relate to data availability (e.g., of individual student and staff records) more apparent, and it is now more difficult for education information systems to provide high-quality data that are useful to both the general public and policymakers but that also meet privacy and security concerns.

Users of School Finance Information

To be of value, information must meet the needs of those who use it. Users of school finance information may be divided into four major groups: those to whom the school districts and state departments of education are primarily accountable (the general public); those who directly represent the general public (legislative and oversight bodies); those who perform academic research using education information (education researchers); and those who lend or participate in the lending process (investors and creditors) (GASB Concepts Statement 1, Paragraphs 35 through 37). Each of these groups has different needs, but each is concerned with the design and implementation of an education system that is programmatically and fiscally effective and efficient.

The General Public

One objective of the general public is to purchase the maximum amount of service with a minimum amount of taxes. By holding government fiscally accountable, school financial reporting should help the general public determine whether this objective is being met.

However, defining and measuring quality services through school productivity and student achievement are exceedingly difficult. Mathematics and reading scores have long borne the burden of determining "productivity," but the reauthorization of the Elementary and Secondary Education Act of 2002 reflected a much broader range of concerns, including school readiness, graduation rates, and increased participation in higher education by minorities, as well as social concerns, such as the cessation of drug use and violence. Although these aims cannot be perfectly quantified, a comprehensive education information system can help respond to the general public's need to know.

Legislative and Oversight Bodies

At the local level, school administrators rely on financial information to evaluate past performance, aid in day-to-day decisionmaking, and keep the general public informed. Program coordinators, in particular, but also classroom teachers and noninstructional employees, use financial information to plan budgets and to request additional funding or redirect existing funds. Financial information embedded in a comprehensive education information system also allows administrators to assess the areas of greatest need and plan how best to allocate resources.

In addition, the local school board is responsible for establishing policies and for overseeing and appraising administrators as they carry out these policies. Thus, the board needs timely information about situations that may need corrective action as well as information with which to judge administrators' efficiency and effectiveness. Some of this information can be provided by general-purpose financial reports, but comparable information about other school districts is needed as a basis for a more informed comparison.

Other units of government also rely on information for policy direction. On average, the U.S. Congress and state legislatures provide about half of the resources for the operation of school districts. Thus, governance units need information on school districts' operations to decide how

to commit resources as well as comparable information about groups of school districts in order to formulate funding policies. To this end, legislators are interested in data that can show

- the ways in which local, state, and federal programs interact within specific operational areas;
- profiles of school finance structures as they relate to tax resources; and
- the impact (and cost) of programs resulting from specific legislative initiatives.

Thus, the defining characteristics of an accounting and data reporting system of interest to state and federal legislators are comparability of data, the ability to classify data in a variety of ways, and timeliness in reporting.

Education Researchers

Education researchers (whether in government, universities, or schools) are at the high-demand end of the information-use spectrum. Their collective need for data is great and, accordingly, the benefits of providing the data must be weighed against the cost. This is a difficult choice to make because the benefits of research are unknown until the research has been done. Fortunately, a comprehensive, well-designed information system—one with data that are valid, reliable, and timely and that provides access to data in a format that researchers can use—can serve both specialized constituencies and the broader public.

Investors and Creditors

Finally, in governmental accounting, investors and creditors are considered to include bondholders and prospective bondholders, commercial banks, vendors, and others who have extended credit, or who are considering extending credit, to the school district. Typically, these data users are interested in the financial position of the school organization, its operating performance, and its likely sources and uses of funds as indications of the probability that the bonds or loans will be repaid in full and on time.

Investors and creditors need information about an institution's available and possible future financial resources, actual and contingent liabilities, and overall debt position to evaluate its ability to continue to provide resources for long-term debt service. They review operating results and cash flow data (both currently and over time) to look for trends that may indicate strengths and weaknesses in the ability of an institution to repay debt. Trend analysis helps investors and creditors project future revenues and predict possible allocation of those revenues.

Summary

All four data user groups discussed above are interested in comparing original or modified budgets with actual results. For example, to assess accountability, citizens as well as legislative and oversight bodies want to ensure that resources are used in accordance with appropriations. Overspending may indicate poor financial management, weak budgetary practices, or uncontrollable and unforeseen circumstances. Underspending may indicate effective financial management that provides the necessary quality and quantity of services within the available appropriations or a decision by management to accumulate a surplus of resources for future use. A comprehensive education information system gives a broad view of budgetary concerns, rather

than simply a bottom line. Thus, *Financial Accounting for State and Local School Systems* is intended to assist in the creation and improvement of a comprehensive data system that results in better academic and fiscal performance in America's schools.

Chapter 3: Budgeting

Budgeting is the process of allocating finite resources to the prioritized needs of an organization, and it is a major element of financial data activity. In most cases, the budget represents the legal authority for a governmental entity to spend money. The adoption of a budget in the public sector implies that a set of decisions has been made by the governmental entity's governing board and administrators that culminates in matching its resources with its needs. As such, the budget is a product of the financial planning process.

The budget also provides an important tool for the control, evaluation, and use of resources. Using the accounting system to enact the will of the governing board, administrators are able to execute and control activities that have been authorized by the budget and to evaluate financial performance on the basis of comparisons between budgeted and actual operations. Thus, the budget is implicitly linked to financial accountability and relates directly to the financial reporting objectives established by the Governmental Accounting Standards Board (GASB).

The planning and control functions inherent to any governmental entity, including schools, underscore the importance of sound budgeting practices for the following reasons:

- The type, quantity, and quality of goods and services provided by government often are not subject to the market forces of supply and demand. Thus, enacting and adhering to the budget establishes restrictions in the absence of a competitive market.

- Goods and services provided by government are generally considered critical to the public interest and welfare.

- The scope and diversity of operations in a governmental entity make comprehensive financial planning essential for good decisionmaking.

- The financial planning process is critical to the expression of citizen preferences and is the avenue for reaching consensus among citizens, members of the governing board, and staff on the future direction of the governmental entity's operations.

The link between financial planning and budget preparation gives the budget document a unique role in governmental organizations. Budgets in the public arena are often considered the definitive policy document because an adopted budget represents the financial plan used by a government to achieve its goals and objectives. When a unit of government legally adopts a financial plan, the budget has secured the approval of the majority of the governing board and reflects

- public choices about which goods and services the unit of government will or will not provide;

- the prioritization of activities in which the unit of government will be involved;

- the relative influence of various participants and interest groups in the budget development process; and
- the governmental organization's plan for acquiring and using resources.

In an education environment, budgeting is an invaluable tool for both planning and evaluation. Budgeting provides a vehicle for translating educational goals and programs into financial resource plans—that is, developing an instructional plan to meet student performance goals should be directly linked to determining budgetary allocations. The link between instructional goals and financial planning is critical to effective budgeting and enhances the evaluation of budgetary and educational accountability.

Budgetary Objectives

Performance evaluation allows citizens and taxpayers to hold policymakers and administrators in governmental entities accountable for their actions. Because accountability to citizens is often an explicitly stated objective in state laws and constitutions, it is a cornerstone of budgeting and financial reporting.

GASB recognizes the importance of accountability with the following objectives in Concepts Statement 1, *Objectives of Financial Reporting* (Paragraph 77):

- Financial reporting should provide information to determine whether current-year revenues are sufficient to pay for current-year services.
- Financial reporting should demonstrate whether resources were obtained and used in accordance with the entity's legally adopted budget; it should also demonstrate compliance with other finance-related legal or contractual requirements.
- Financial reporting should provide information to assist users in assessing the service efforts, costs, and accomplishments of the governmental entity.

Accountability is often established by incorporating these objectives into legal mandates that require state and local public sector budgets to

- be balanced (i.e., with current revenues sufficient to pay for current services);
- be prepared in accordance with all applicable federal, state, and local laws; and
- provide a basis for the evaluation of a government's service efforts, costs, and accomplishments. Although some form of a balanced budget requirement is generally necessary to ensure the long-term fiscal health of any organization, variations of this requirement (such as the use of fund balance reserves to pay for current services) may be appropriate over a short period. Generally, however, all departures from this fundamental objective must be in accordance with applicable state and local laws and policies.

Given the importance of demonstrating compliance with the approved budget, the financial reporting system must control the use of financial resources and ensure that budgetary appropriations and allocations are not exceeded. To demonstrate compliance, accounting systems are usually operated on the same basis of accounting used to prepare the approved budget. Thus, the actual financial information captured by the accounting system is in a form comparable to that in the approved budget. Through integration with the budget, the financial accounting system becomes the primary tool with which to prove financial accountability.

Finally, the budget is evaluated for its effectiveness in attaining the organization's stated goals and objectives. Evaluation typically involves an examination of how funds were expended, the outcomes that resulted from the expenditure, and the degree to which these outcomes achieved the stated objectives. The evaluation phase is fundamental in developing the subsequent year's budgetary allocations. In effect, budget preparation is not only an annual exercise to determine the allocation of funds, but also part of a continuous cycle of planning and evaluation.

Budgetary Approaches

Over the past 30 years, governmental organizations in the United States have used a variety of budgetary approaches and formats. The development of more advanced budget philosophies reflects growth in both the scope and complexity of governmental operations and the simultaneous need for systems that are capable of translating the variety of policy decisions into financial plans. For more information on budgetary approaches, the National Advisory Council on State and Local Budgeting provides additional guidelines.

Various budgeting models continue to be commonly used and fall predominantly into the following categories: (1) line-item, or "traditional," budgeting; (2) performance budgeting; (3) program budgeting; (4) zero-based budgeting; (5) site-based budgeting; and (6) outcome-focused budgeting. In addition, many governmental organizations use a variety of hybridized versions to address their specific needs. Although the underlying preparation process is distinct in each approach, the formats of the prepared budgets may be quite similar; for example, the format of a site-based budget may be quite similar to the format of a line-item budget. Each of the six basic approaches has both advantages and limitations.

Line-Item Budgeting

Line-item budgeting is still the most widely used approach in many governmental organizations, including schools, because of its simplicity and its control orientation. It is referred to as the "historical" approach because administrators and chief executives often base their expenditure requests on historical expenditure and revenue data. One important aspect of line-item budgeting is that it offers a degree of flexibility in the amount of control established over the use of resources that is dependent on the level of expenditure detail (e.g., fund, function, object) incorporated into the document.

The line-item budget approach has several advantages that account for its wide use: It offers simplicity and ease of preparation; it is familiar to those involved in the budget development process; it budgets by organizational unit and object and is consistent with the lines of authority

and responsibility in organizational units. As a result, the line-item budget enhances organizational control and allows expenditure data to be accumulated at each functional level. It also allows expenditure data to be accumulated by organizational unit for use in trend or historical analysis.

Although line-item budgeting offers substantial advantages, critics have identified several shortcomings that may make it inappropriate for certain organizational environments. The most severe criticism is that it presents little useful information to decisionmakers on the functions and activities of organizational units. Because it presents proposed expenditure amounts only by category, the justifications for such expenditures are not explicit and are often not intuitive. In addition, it may invite micromanagement by administrators and governing boards as they attempt to manage operations with little or no performance information. However, to overcome its limitations, the line-item budget can be augmented with supplemental program and performance information.

Performance Budgeting

A different focus is seen in performance budgeting models. In a strict performance budgeting environment, budgeted expenditures are based on a standard cost of inputs multiplied by the number of units of an activity to be provided in a time period. An organization's total budget is the sum of all the standard unit costs multiplied by the number of units expected to be provided. Although this strict approach may be useful for certain types of operations, many organizations require a more flexible approach. For example, expenditures may be based simply on the activities or levels of service to be provided and a comparison of budgeted and historical expenditure levels.

The performance approach is generally considered superior to the line-item approach because it provides more useful information for legislative consideration and for evaluation by administrators. Performance budgeting also includes narrative descriptions of each program or activity—that is, it organizes the budget into quantitative estimates of costs and accomplishments and focuses on measuring and evaluating outcomes. Finally, it eases legislative budget revisions because program activities and levels of service may be budgeted on the basis of standard cost inputs.

However, performance budgeting is limited by the lack of reliable standard cost information inherent in governmental organizations. Furthermore, the performance approach does not necessarily evaluate the appropriateness of program activities in relation to an organization's goals or the quality of its services or outputs. Consequently, the performance approach has become most useful for activities that are routine in nature and discretely measurable (such as vehicle maintenance and accounts payable processing)—activities that make up only a relatively modest part of the total education enterprise. Nevertheless, performance budgeting may offer considerable enhancement to the line-item budget when appropriately applied.

Program Budgeting

Program budgeting refers to a variety of different budgeting systems that base expenditures primarily on programs of work and secondarily on objects. Considered a transitional form

between traditional line-item and performance approaches, it is sometimes referred to as *modified* program budgeting. In contrast to other approaches, a *full* program budget bases expenditures solely on programs of work, regardless of objects or organizational units. Program budgeting is flexible enough to be applied in a variety of ways, depending on organizational needs and administrative capabilities.

Program budgeting differs from the approaches discussed above because it places less emphasis on control and evaluation. Budget requests and reports are summarized in terms of a few broad programs rather than in the great detail of line-item expenditures or organizational units. Program budgeting systems place a great deal of emphasis on identifying the fundamental objectives of a governmental entity and on relating all program expenditures to these objectives. This conceptual framework includes the practices of explicitly projecting the long-term costs of programs and evaluating different program alternatives that may be used to reach long-term goals and objectives. The focus on long-range planning is the major advantage of this approach, and advocates believe that organizations are more likely to reach their stated goals and objectives if it is used.

However, several conditions can limit the implementation of this approach, including changes in long-term goals, a lack of consensus regarding an organization's fundamental objectives, a lack of adequate program and cost data, and the difficulty of administering programs that involve several organizational units. Despite these limitations, program budgeting is often used as a planning device while budget allocations continue to be made in terms of objects and organizational units—a process that has been adopted in many schools throughout the nation. As with performance budgeting, program budgeting information may be used to supplement and support traditional budgets in order to increase their informational value.

Zero-Based Budgeting

The basic tenet of zero-based budgeting (ZBB) is that program activities and services must be justified annually during the budget development process. The budget is prepared by dividing all of a government's operations into decision units at relatively low organizational levels. Individual decision units are then aggregated into decision packages on the basis of program activities, program goals, organizational units, and other criteria. Costs of goods or services are attached to each decision package on the basis of the level of production or service to be provided to produce defined outputs or outcomes. Decision units are then ranked by their importance in reaching organizational goals and objectives. Therefore, when the proposed budget is presented, it contains a series of budget decisions that are tied to the attainment of these goals and objectives.

The central thrust of ZBB is the elimination of outdated efforts and expenditures and the concentration of resources where they are most effective. This is achieved through an annual review of all program activities and expenditures, which results in improved information for allocation decisions. However, proper development requires a great deal of staff time, planning, and paperwork.

Experience with the implementation of this approach indicates that only a periodic comprehensive review of ZBB decision packages may be necessary for some program activities. However, a minimum level of service for certain programs may be legislated regardless of the results of the review process. As a result, ZBB has had only modest application in schools, although the review of program activities makes ZBB particularly useful when overall spending must be reduced.

Site-Based Budgeting

Site-based budgeting is considered practical for budgeting within the school district environment because it provides greater control and reporting of school-level data. This approach (which may be used in combination with any of the four approaches discussed above) emphasizes the decentralization of budgetary decisionmaking. Site-based budgeting places local managers and other staff at the center of the budget preparation process, making them responsible for both the preparation and the maintenance of the budget.

Site-based budgeting is popular in many school settings. Within a school system, site-based budgeting generally involves granting increased budgetary authority to the school. Resources are allocated to the site, with budget authority for programs and services granted to the school's principal and staff. Campuses are normally allocated a certain level of resources that they have the authority to allocate to educational and support services. These budgetary allocations are meant to cover those areas over which campus decisionmakers have control. For example, schools that have authority over staffing decisions may be allocated funds for staff costs. In contrast, school districts that make staffing decisions centrally may not allocate funds to the individual school site for staff costs.

The main advantage of site-based budgeting is that those who best understand the needs of a particular organization are empowered to make resource allocation decisions. This decentralization of budgetary authority may also increase local accountability. Another potential advantage of site-based budgeting is the increased level of participation of the public and staff in budget development. Many site-based budgeting systems create committees composed of staff and community members to determine budgetary allocations. These committees give their members a voice earlier in the budget process (from its inception) rather than later in the process (when the budget is presented for public review and approval).

Despite its substantial benefits, site-based budgeting also has several limitations. First, organizations with limited resources may not be capable of granting a meaningful level of site-based budgetary authority. Second, even if an organization has discretionary resources, it may be difficult to determine the areas of the budget for which local decisionmakers should be held accountable. Finally, site-based budgeting may be burdensome to some local managers, may increase conflict between staff or departments, or may limit the organization's ability to ensure quality and sufficiency in the services it provides. These problems can be avoided through the careful design of site-based budgeting guidelines and thorough training for new budget stakeholders.

Outcome-Focused Budgeting

Consistent with the evaluation objective, government budgeting is becoming increasingly outcome focused. Fiscal austerity, coupled with intense competition for resources, has precipitated an effort to ensure a more effective use of resources at all levels of government. Outcome-focused budgeting is the practice of linking the allocation of resources to the production of outcomes. The objective is to allocate government's resources to those service providers or programs that use them most effectively.

Outcome-focused budgeting is closely linked to the planning process. For a governmental entity to focus on outcomes, goals and objectives must be identified and tied to budget allocations for the achievement of those objectives. This premise argues that mission-driven (i.e., outcome-focused) governments are superior to those that are driven more by rules and regulations because they are more efficient, more effective in producing desired results, more innovative, and more flexible, and have higher employee morale (Osborne and Gaebler 1993). In the context of increased scrutiny of governmental costs, including those for schools, this model may receive more emphasis in the future.

Operating Budget Responsibilities and Guidelines

The development of annual budgets is part of a continuing planning process. The advent of site-based decisionmaking in some states has increased the integration of planning and budgeting at the school level; however, even where site-based decisionmaking has not been adopted, state laws generally allow considerable district autonomy in budget preparation. The organizational structure of a district, including the size and complexity of its administration and the degree of centralization, will affect the budgetary approach, the budget development process, and the final budget document. Beyond the requirements for federal and state programs, the budget preparation process and related responsibilities will be largely determined by the local school board and superintendent.

This section contains information related to the significant aspects, phases, and outputs of the school district budgeting process. Although it is not meant to establish standards or requirements, it may be useful in the development of sound budgeting procedures. Given the diversity of budgetary and financial reporting found in individual states, the process described here may be customized to conform to particular local and state requirements. The discussion in this section describes a typical site-based budgeting approach.

Roles and Responsibilities

The local school board and the superintendent should establish guidelines and a meticulous budget preparation process. To achieve this, the delegation of budget responsibilities among administrators at the district and school levels should be deliberately designed to require consensus at the highest levels of management. Because individuals may serve in a variety of roles in the budget development process, the division of duties may differ among districts. It is important, however, to clearly define the staff assignments and parameters if the budget development process is to operate efficiently. With the advent of site-based decisionmaking,

individuals lacking previous budget experience need clear direction in order to provide effective input.

Budget Preparation Guidelines

Budget preparation guidelines typically are prepared by the assistant superintendent for business and finance or by an employee with similar responsibilities, such as a chief business official or a budget administrator, with direction from the school board, the superintendent, and other district and school administrators. A presentation with subsequent board approval of the budget process, guidelines, and calendar may be legally required or may be a locally imposed procedure. However, at a minimum, the guidelines should contain the following elements:

- a budget transmittal letter from the superintendent that provides the overall context for budget development at the school level;
- a budgetary overview that explains the budgeting philosophy and approach, outlines the budget development process, and refers to major assumptions and changes in the budgetary process from the previous year;
- fiscal limitations to be observed, such as maintenance of service levels, specific percentage increases or decreases in resource allocations, and personnel hiring guidance;
- a calendar of critical dates for budget completion, submission, and review;
- instructions concerning expenditure items to be budgeted at the school level and the detail required for submission;
- a copy of standard budget preparation worksheets, submission forms, and diskettes; and
- a list of the account codes necessary for preparing the budget.

Many of these elements may be combined into the budgetary overview. The preparation guidelines may also contain the following:

- guidelines for estimating standard school resource allocations that are determined by the budgetary approach used by the district and the availability of resources;
- guidelines for estimating the costs of specific expenditure categories, such as salaries and benefits, supplies, or fixed charges; and
- instructions for submitting school budgets to the district office, including the number of copies, due dates, and personnel to contact for assistance.

Preparation of the Budget Calendar

The budget calendar provides critical dates for the preparation, submission, and review of school budgets. It is prepared during the planning process by the district budget office. A variety of simple techniques may be used to build the calendar, such as beginning with the previous year's

calendar and modifying it for the current year. Problems that occurred in the prior year's budget cycle should be identified for change in the current year's calendar. Also, the current year's calendar should incorporate changes in the budget development process. If the process has been substantially altered, creating an entirely new calendar may be necessary. The following steps may be used:

- Determine the necessary level of detail. If several calendars with varying levels of detail are used, they should be summarized in a master calendar to ensure that all activities and dates are consistent and compatible.

- Identify all activities that must be included in the calendar and arrange them chronologically.

- Assign completion dates to each activity. Some districts may also assign suggested or mandatory start dates for certain activities to ensure their timely completion.

Financial Forecasting and Planning

Financial forecasting is the practice of projecting the quantitative impact of trends and changes in the operating environment on future operations. It is an integral part of all ongoing planning efforts. Forecasting is important for several reasons:

- It facilitates planning efforts by quantifying the future costs and benefits of strategic decisions. Thus, budgetary priorities may be evaluated on the basis of their long-term impacts.

- It clarifies trends, needs, and issues that must be addressed and evaluated in the preparation of budgets. For example, enrollment forecasting may reveal growing student populations and focus attention on the need for increased resource allocations for staff, facilities, or both.

- It enhances decisionmaking at all levels of administration, provides valuable insight into future issues (which allows administrators to be proactive), and creates the framework for anticipatory management.

Although financial forecasting should be a continuing process, it is most important as a component of budget development. Forecasts of projected enrollments, property tax base and revenues, costs associated with salary adjustments, and so on are important elements in setting baseline budgetary guidelines and creating the basis for the assumptions used to prepare budgets. Additionally, forecasting provides fiscal impact analysis that may be integrated into the budget development process. Such analyses allow current budgetary decisions to be evaluated for their long-term results.

According to Miller and McClure (1988), the reliability of forecasts can be increased by taking several action steps in advance of their preparation. These steps are as follows:

- **Clarify the intended purpose of the forecast.** The prospective audience may require a certain set of data and related assumptions.

- **Match the time frame with the purpose of the forecast.** Time frames for forecasts will vary according to the purpose of the forecast being prepared.

- **Ensure the accuracy of basic data.** Original source data should be used rather than extrapolated or summarized data. Sources should be documented and verified so that any concerns about data validity can be allayed.

- **Specify the underlying assumptions.** Assumptions in the forecasts should be explicit, with proper documentation based on actual data.

- **Be consistent in calculations.** Spreadsheet programs are recommended for preparing forecasts to ensure the accuracy and consistency of calculations.

- **Examine data critically.** A scan of the data may reveal anomalies or errors that can adversely affect forecasts. A comparison of initial values and forecasted values should be completed to ensure the reasonableness of forecasted values.

- **Recognize that forecasting requires insight and intuition.** Some variables or forecasting assumptions will always be a best guess. However, experience provides a basis for this type of estimation.

A variety of financial and related forecasts are necessary for the preparation of a comprehensive budget. These include forecasts for student enrollment, revenues and expenditures, assessed property value, debt service costs, cash flow, and fund balance.

Cash forecasts and fund balance forecasts are discussed below.

Cash Forecasts

The cash forecast is critical to ensuring that a fiscal crisis, such as a failure to meet financial obligations, will not result from a cash shortage. An accurate forecast indicates potential cash shortages and thus provides an opportunity for preemptive corrective actions to be taken. It also benefits the investment program by allowing the extension of maturities of investments. Longer investment maturities typically result in higher interest earnings. Projections of operating cash needs should be developed for the fiscal year on a monthly or biweekly basis, depending on the payroll cycle, and should consider the timing of federal and state aid payments, local property tax levies and collections, lunchroom sales, sales taxes, and interest earnings and disbursements. This type of cash flow analysis will reveal the short-term borrowing necessary to address anticipated shortages. The associated cost of short-term borrowing should be included as a budgeted expenditure in the fiscal period in which the interest is scheduled for payment.

Cash forecasting is also necessary for activities or programs that extend to multiple operating periods, such as major facilities construction and acquisition. Capital projects are typically financed from the proceeds of bonds, loans, certificates of participation, or other long-term debt

instruments. Cash projections for the period of activity should incorporate funding proceeds and related capital expenditures based on contractual arrangements with regard to the timing of cash flows.

Fund Balance Forecasts

Fund balance forecasting for governmental funds results from the budget development process. Periodic monitoring of balances is provided through integration of the budget and the accounting system and is necessary to ensure compliance with statutory and contractual fund balance requirements.

Planning for Annual and Multiyear Construction and Grant Programs

The following steps are basic to the planning process for both annual and multiyear construction and grant programs:

- Review the stated goals and objectives to determine if they provide a valid basis for the entity's activities and operations. Although normally developed during the strategic planning process, goals and objectives should be periodically reviewed for appropriateness.

- Conduct formal and/or informal needs assessments to identify and prioritize needs. Most strategic plans include one or more needs assessments. The criteria used are usually developed locally; however, granting agencies may have their own criteria. A methodology that provides objective measurement of the needs of the unit under review is necessary and should include financial and other forecasts in order to properly identify those needs.

- Design programs to attain the goals and objectives determined through the needs assessments. Program planning should use an integrated approach to prevent the duplication of effort, ensure the efficient use of resources, and ensure that all identified needs are addressed.

- Prepare program budgets to support implementation plans. The traditional budgetary approach has been to appropriate only those monies necessary for the costs of the program or project in its first fiscal year. At year-end, the appropriation expires and monies must be reallocated for each subsequent year of the program or project. This approach is unnecessarily complex and may distract administrative and board focus from important budgetary issues. To avoid these problems, the development of multiyear program budgets, whether for capital or special programs, is recommended if state and local statutes permit multiyear budgeting.

Budgets for Multiyear Construction Projects

The development of budgets for multiyear construction projects has two major stages. The first stage involves extensive planning to identify a facility's *needs*. This may be accomplished through the process, outlined earlier in this chapter, on financial forecasting and planning. A committee may be created specifically for capital planning or as part of a strategic planning effort. Identification of capital needs may also come from maintenance staff or from a contracted

evaluation. Evaluations should also identify the potential *costs* of a particular program. From these inputs—needs and cost—an agency can determine whether to pursue a construction project. Once this decision is made, the second stage of budget development—exploring project financing—can begin. This process does not necessarily need to be incorporated into the annual budget process.

Preparation of Construction Project Budgets and Related Financing

Following the decision to initiate a capital acquisition program, funding mechanisms should be explored. Funding mechanisms often involve some form of bonded indebtedness; however, building programs may also be funded with accumulated operating funds or with capital leases and installment payments. If bond financing is used, the bond initiative must be reviewed and approved by the governing board before it is placed on the ballot. The size of the bond initiative for a particular program may be determined by estimates of aggregate costs generated during the planning process, and the initiative may not include detailed project budgets until funding has been secured. However, depending on the local political environment, bond initiatives may require detailed cost estimates that specifically identify the projects to be funded from the proceeds before they can be placed on the ballot.

Financial advisers and bond attorneys may be consulted on the size, applicable tax regulations, marketing, and sales of bond issues. Other considerations include tax rate limitations or debt ceilings that may affect the amount of bonded debt that can be taken on.

After funding has been secured, detailed project budgets should be developed. Individual budgets covering the life of each project are necessary for the proper monitoring of the related activity. Although cost estimates developed during the planning process may be used to determine the size of the bond initiative, actual project budgets must contain more detailed information. Architects, contractors, and staff should be involved in preparing the budget, and it will be necessary to identify factors such as shifts in student populations or additional facility or site requirements that may cause significant differences between the actual project budget and cost estimates developed during the planning process. Construction project budgets using a multiyear format should be reviewed periodically by administrators, and reports should be provided to the board periodically on the progress of each project. Bond attorneys and financial advisers also need to be informed periodically of the progress of projects using debt funds.

Summary

In summary, the budgeting process is an integral part of the sound financial management of any organization. Adequately planning for and managing the use of the organization's resources are playing increasingly important roles as the movement for greater accountability expands in importance. Sound budgeting techniques, such as site-based budgeting, are being emphasized as school district administrators and funding agencies require a greater level of justification for annual expenditures and decentralized decisionmaking. However, regardless of which budgeting technique is adopted, some of the benefits of preparing and managing a budget remain the same:

greater control and accountability over financial resources as well as the demonstration that administrators are actively planning for future needs.

Chapter 4: Governmental Accounting

Unlike most private-sector organizations, governmental entities must be responsive to a number of different groups and organizations—including elected officials, other governmental entities, investors, creditors, and citizens—that monitor their activities. All forms of monitoring involve collecting and interpreting data, and this oversight function is often performed using information provided in governmental reports. Among the most important types of reports is the annual financial report, which presents the financial position, operating results, and cash flows for a particular accounting period. All governmental entities, including school districts, develop their annual financial reports in accordance with principles established by standard-setting authorities to provide consistency and comparability for users.

For governments to achieve the objective of accountability, they must provide financial reports that reasonably informed users find both relevant and reliable. They must satisfy numerous and diverse needs or objectives by presenting information about short-term financial position and liquidity, budgetary and legal compliance, and issues having a longer-term focus, such as capital budgeting and maintenance. Additionally, information must be presented at different levels of detail to satisfy the needs of various users.

Following more than a decade of research and analysis, the Governmental Accounting Standards Board (GASB) concluded that to meet the varied needs of a wide range of users, governmental reports must provide information regarding the public entity as a whole in addition to the traditional fund financial statements. Accordingly, in June 1999, GASB introduced a new financial reporting model in Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* (GASB 1999). This new model integrated the traditional focus of governmental fund financial statements relating to fiscal accountability (and the modified accrual basis of accounting) with new forms of reporting (e.g., government-wide financial statements). The two levels of financial reporting are intended to

- provide more relevant information that results in greater accountability by state and local governments; and
- enhance the understandability and usefulness of annual financial reports so that users of these reports can make more informed economic, social, and political decisions.

This chapter provides an overview of governmental accounting and financial reporting and the current approaches used in compiling financial reports. It covers the following elements:

- governmental Generally Accepted Accounting Principles (GAAP) hierarchy;
- measurement focus and basis of accounting;
- fund structure;
- internal control structure; and
- other issues affecting educational entities.

It is important for governments to provide their constituencies with financial information presented in a consistent and clear format. Specifically, this information should contribute to accountability in the following areas:

- financial position and results of operations;
- actual financial results compared to adopted budgets;
- compliance with finance-related laws, rules, and regulations;
- efficiency and effectiveness of operations; and
- maintenance of governmental assets.

Governments achieve consistency in financial reporting through the use of accounting standards. GASB is the standard-setting authority of GAAP for state and local governments, including school districts. In cases where no GASB pronouncement is applicable, other authoritative sources of guidance exist.

The following section presents a hierarchy of GAAP in descending order of authority. The hierarchy was originally established in the American Institute of Certified Public Accountants' (AICPA) Statement on Auditing Standards (SAS) No. 69 (AICPA 1992). In 2009, GASB issued Statement 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which incorporated the governmental GAAP hierarchy into GASB's authoritative literature, but did not affect the hierarchy itself or change current practice.

In 2010, GASB issued Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* This statement incorporated into GASB's authoritative literature certain accounting and financial reporting guidance issued either by the Financial Accounting Standards Board (FASB) or the Accounting Principles Board or contained within the Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure before November 30, 1989. This furthered GASB's efforts to codify relevant governmental GAAP, but had no practical effect on the accounting or financial reporting guidance contained within. It should be noted, however, that Statement 62 allows entities to continue to apply, as does other accounting literature, post-November 30, 1989, FASB pronouncements that do not conflict with or contradict GASB pronouncements.

Governmental GAAP Hierarchy

There are four categories in the governmental GAAP hierarchy. Listed in descending order of authority, they are as follows:

- Category (a) consists of GASB Statements and Interpretations, which are periodically incorporated into the *Codification of Governmental Accounting and Financial Reporting Standards,* most recently published in 2012 (GASB 2012a).

- Category (b) consists of GASB Technical Bulletins and AICPA Industry Audit and Accounting Guides and Statements of Position made applicable specifically to state and local governments by AICPA and approved by GASB.

- Category (c) consists of AICPA Practice Bulletins made applicable to state and local governments by AICPA and approved by GASB. (This category includes the positions of groups of accountants organized by GASB to reach a consensus on accounting issues applicable to state and local governmental entities. However, GASB had not organized any such groups as of the release date of this handbook.)

- Category (d) includes GASB Implementation Guides published by GASB staff as well as practices that are widely recognized and prevalent in state and local governments.

In the absence of a pronouncement covered by AICPA Rule 203 (AICPA n.d.) or another source of established accounting principles, other accounting literature, such as the following, may be considered, depending on its relevance to the circumstances:

- GASB Concepts Statements;

- Pronouncements referred to in categories (a) through (d) of the GAAP hierarchy for nongovernmental entities, if not specifically made applicable to state and local governments:
    - FASB Concepts Statements;
    - Federal Accounting Standards Advisory Board Statements, Interpretations, Technical Bulletins, and Concepts Statements;
    - AICPA Issues Papers;
    - International Public Sector Accounting Standards of the International Public Sector Accounting Standards Board or International Financial Reporting Standards of the International Accounting Standards Board;
    - pronouncements of other professional associations or regulatory agencies;
    - Technical Information Service Inquiries and Replies included in AICPA Technical Practice Aids; and
    - accounting textbooks, handbooks, and articles.

The appropriateness of other accounting literature depends on its relevance to particular circumstances, the specificity of the guidance, and the general recognition of the issuer or author as an authority. It should be noted that GASB Concepts Statements would normally be more influential than other sources in this category.

Currently, GASB is evaluating potential modifications to the GAAP hierarchy as set out in GASB Statement 55 to determine whether the number of categories currently used is necessary or whether some should be combined, resulting in fewer levels. GASB is also addressing the potential of elevating the GASB Implementation Guides to a higher level within the hierarchy, as well as evaluating the placement of AICPA pronouncements and GASB Technical Bulletins. A

final statement is not anticipated until mid-2015; therefore, there will be no immediate impact on the entities that use this publication.

Measurement Focus and Basis of Accounting

Traditionally, the majority of governmental financial information has been maintained and reported in fund financial statements on the modified accrual basis of accounting (or the accrual basis for business-type activities). GASB Statement 34 established additional reporting (the government-wide statements) that represented a major shift in the focus and content of governmental financial statements. Collecting and reporting the additional financial information required by the government-wide statements added to the complexity of financial reporting activities and had significant implications for the traditional focus and basis of accounting used in governmental financial statements.

The government-wide financial statements consist of a statement of net position and a statement of activities and are prepared using the economic resources measurement focus and the accrual basis of accounting. Thus, revenues are recognized in the accounting period in which they are earned and become measurable without regard to availability, and expenses are recognized in the period incurred, if measurable.

Governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become available and measurable, and expenditures are recognized in the period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which should be recognized when due (GASB 2010). Both proprietary fund financial statements and fiduciary fund financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Exhibit 1 summarizes the measurement focus and basis of accounting for each reporting element and type of fund.

Exhibit 1. Measurement focus and basis of accounting for financial statements

Financial statements	Measurement focus	Basis of accounting
Government-wide financial statements	Economic resources	Accrual
Governmental funds financial statements	Current financial resources	Modified accrual
Proprietary funds financial statements	Economic resources	Accrual
Fiduciary funds financial statements	Economic resources	Accrual

GASB Statement 20, as amended by Statement 34, allowed a government the option of applying all FASB Statements and Interpretations issued after November 30, 1989—except those that conflict with or contradict GASB pronouncements—to enterprise funds and government-wide financial statements. This election was effectively eliminated by GASB Statement 62, although entities may continue to apply, per other accounting literature, such guidance.

Fund Structure

To ensure the proper segregation of resources and to maintain proper accountability, a governmental entity's accounting system should be organized and operated on a fund basis. Each fund is a separate fiscal entity and is established to conduct specific activities and attain objectives in accordance with statutes, laws, regulations, and restrictions or for specific purposes. A fund is defined in GASB Codification Section 1300 "as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations."

GASB Statement 34 modified the structure of two categories of funds used by local governmental entities. Specifically, two new types of funds were introduced:

- **Permanent funds** (in the governmental fund category). Permanent funds are required to be used to report resources that are legally restricted to the extent that only earnings (and not principal, thus making the fund a nonexpendable trust) may be used for purposes that support the reporting government's programs.

- **Private-purpose trust funds** (in the fiduciary fund category). Private-purpose trust funds should be used to report all other trust arrangements under which both principal and income benefit individuals, private organizations, or other governments.

GASB Statement 34 eliminated expendable and nonexpendable trust funds to focus fiduciary reporting on resources held for parties external to the reporting government: individuals, private organizations, and other governments. Fiduciary funds, therefore, cannot be used to support the government's own programs. As noted above, a nonexpendable trust fund that supports the government's own programs is reported as a permanent fund. It should be noted that an expendable trust that supports a government's own programs would be reported as a special revenue fund.

There are three categories of funds:

- Governmental funds are those through which most governmental functions are accounted for. The acquisition, use, and balances of the government's expendable financial resources and related current liabilities—except those accounted for in proprietary funds—are accounted for through governmental funds (general, special revenue, capital project, debt service, and permanent funds).

- Proprietary funds are used to account for a government's ongoing activities that are similar to those often found in the private sector. All assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, expenses, and transfers relating to the government's business and quasi-business activities—in which changes in net position or cost recovery are measured—are accounted for through proprietary funds (enterprise and

internal service funds). Generally Accepted Accounting Principles for proprietary funds are similar to those applicable to private-sector businesses; the measurement focus is on determining operating income, financial position, and cash flows.

- Fiduciary funds are used to account for assets held by a government in a trustee capacity or as an agent for individuals, private organizations, or other governmental units. The fiduciary fund category includes pension (and other employee benefits, as well as other postemployment benefits) trust funds, investment trust funds, private-purpose trust funds, and agency funds.

Additional information on governmental fund structure may be found in chapter 5.

Major Funds

The concept of major fund reporting was introduced and defined by GASB Statement 34 to simplify the presentation of fund information and to focus attention on the major activities of the reporting entity. Rather than requiring each type of fund to be individually presented, Statement 34 requires the individual presentation of *only* major funds, with all other funds combined into a single column. This reduces the number of funds presented on the face of the financial statement and directs the focus to the significant funds of the reporting entity. Major fund reporting is applied only to governmental funds (i.e., general, special revenue, debt service, capital project, and permanent funds) and enterprise funds. Internal service funds are excluded from the major fund reporting requirements. Fiduciary fund information is presented by type of fund rather than by major funds.

GASB defines major funds as those meeting the following criteria:

- The total assets plus deferred outflows, liabilities plus deferred inflows, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total (assets, liabilities, etc.) for all funds in that category (governmental funds) or of that type (enterprise funds).

- The total assets plus deferred outflows, liabilities plus deferred inflows, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Both criteria must be met in the same element (assets, liabilities, etc.) for a fund to be defined as major. However, GASB Statement 34 permits a government to designate a particular fund that is of interest to users as a major fund and to individually present its information in the basic financial statements, even if it does not meet the criteria. However, a government does not have the option to *not* report a fund as major if it meets the criteria above.

It should be noted that in applying the major fund criteria to enterprise funds, the reporting entity should consider both operating and nonoperating revenues and expenses, as well as gains, losses, capital contributions, additions to permanent endowments, and special items. When the major fund criteria are applied to governmental funds, revenues do not include other financing sources and expenditures do not include other financing uses. However, special items would be included.

Internal Control Structure

An integral part of proper accounting procedures rests in issues of controls and begins with internal accountability structures. AICPA's *Statement on Auditing Standards No. 78, Consideration of Internal Control in a Financial Statement Audit: An Amendment to Statement on Auditing Standards No. 55* (AICPA 1995)—which incorporates the Committee of Sponsoring Organizations' report, *Internal Control Framework*—indicates that the elaborateness of the system of internal controls established within an organization is a matter of judgment on the part of management, with careful consideration for circumstances, such as the size of the organization and the number of personnel and the relationship between the costs and benefits of designing and implementing controls. In addition, the nature of internal control is such that even appropriate methods and systems do not guarantee that an organization's objectives will be achieved.

Internal control is a process designed to provide reasonable assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. It consists of five interrelated components:

- control environment;
- risk assessment;
- control activities;
- information and communication; and
- monitoring.

Each of these components is discussed below.

Control Environment

The control environment is established on the basis of the attitude of management toward internal control. AICPA Statement on Auditing Standards No. 78 states that the control environment "sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure" (AICPA 1995). As such, a management philosophy that is dedicated to establishing a sound business process and operating controls would tend to create a stronger internal control environment than a philosophy that is unaware of or unconcerned with internal controls.

Collectively, various factors affect the control environment, including the following:

- integrity and ethical values;
- commitment to competence;
- governing board or audit committee participation;
- management's philosophy and operating style;
- organizational structure;

- assignment of authority and responsibility; and
- human resource policies and practices.

The substance of internal controls is more important than the form because of the risk that controls may not be effectively implemented or maintained.

Risk Assessment

Risk assessment is the entity's identification and analysis of risks relevant to the achievement of its objectives. Risk assessment forms a basis for determining how risk should be managed. Risks can arise or change as a result of the following factors:

- changes in the operating environment;
- new personnel;
- new or revamped information systems;
- rapid growth;
- new technology;
- new grant programs, building projects, or other activities;
- organizational restructuring;
- accounting pronouncements;
- changes in federal regulations; and
- changes in finance-related statutes.

Given the dynamic nature of governmental operating environments, the ability to anticipate and mitigate risks from these changes is a key factor in measuring the strength of internal controls.

Control Activities

Control activities are the policies and procedures that help ensure that management directives are carried out. Control activities can be divided into four categories:

- performance reviews;
- information processing;
- physical controls; and
- segregation of duties.

The application of control activities, such as the segregation of duties, is affected to some degree by the size of the entity. In small entities, procedures are less formal than in large entities. Additionally, certain types of control activities may not be relevant in small entities.

Information and Communication

Information and communication represent the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities. Information systems encompass procedures and documents that perform the following functions:

- identify and record all valid transactions;
- describe, on a timely basis, transactions in sufficient detail to permit proper classification for financial reporting;
- measure the value of transactions in a manner that permits their proper recording in the financial statements;
- permit the recording of transactions in the proper accounting period; and
- present properly the transactions and related disclosures in the financial statements.

Senior management should deliver a clear message to employees about their responsibilities and roles in the internal control system. Employees should also have a means for communicating the effectiveness and efficiency of these systems to upper levels of management.

Monitoring

Monitoring is a process that assesses the quality of internal control performance over time. Ongoing monitoring activities include regular management and supervisory activities and other actions taken during the normal performance of management's duties. Furthermore, periodic reviews of internal controls and related activities, performed with internal personnel or external resources, may be undertaken. The nature and timing of these evaluations depend on the effectiveness of ongoing activities and the risk that internal controls are not performing as intended by management. Deficiencies in the system of internal controls should be reported to the appropriate level of management.

Management should clearly assign responsibility and delegate authority with sufficient care to ensure that

- persons who perform control procedures are held accountable for their performance by those who monitor these activities; and
- persons who monitor the performance of control procedures are held accountable by senior management, the governing board, or the audit committee.

If accounting information is routinely used in making operating *decisions*, management is likely to establish effective controls and hold lower level managers and employees accountable for performance. In addition, if management routinely uses accounting information to measure operating *results*, significant variances between planned and actual results are likely to be investigated. This review may detect the causes of the variances and effect the steps necessary to correct the procedures that failed to prevent them.

Common Types of Control Procedures

Numerous control procedures and monitoring activities are performed by individuals in governmental entities to accomplish particular objectives. All of these controls, however, can be classified within one of the following basic categories:

- access controls;
- reconciliation and comparison of assets with records;
- analytical reviews;
- authorization and approval;
- reviews of output;
- transactional reviews; and
- general computer controls.

Detailed control procedures or monitoring activities may be included in each of these categories, depending on the size of the entity and the sophistication of the particular control environment. Each of these categories is described below.

Access Controls

Certain controls prevent access to assets by unauthorized persons. Often these controls are physical in nature. For example, an organization might store inventories of supplies and commodities in locked storage areas, store currency in a vault or a locked drawer, and use alarm systems to restrict access by unauthorized individuals. If controls to prevent unauthorized access to assets are not effective, assets may be lost or stolen. However, if detective control procedures (such as physical inventory counts) are appropriately performed, shortages should be discovered in a timely manner.

In some cases, unauthorized access to assets may be gained through vulnerable accounting records—especially records maintained on computer systems. For example, if warehouse requisitions can be issued through a computer terminal, access to inventory may be gained through the system. Controls over unauthorized access to assets through computer records may be physical (e.g., terminals may be kept in a locked room) or logical (e.g., access to the computer program or data files may be obtained only with the proper password or other user-identification method). Monitoring the control procedures that address unauthorized access includes observing physical control procedures, reviewing established access privileges with the manager of information systems, and reviewing reports of attempted computer access violations. Internal auditors often perform such activities.

Access controls, however, do not prevent individuals who have authorized access to assets from misappropriating them. Individuals who have authorized access to both assets and related accounting records may be in a position to conceal shortages of assets in the records. However, if duties are properly segregated, persons with access to assets will not have access to the related accounting records, which they might alter to conceal shortages.

Controls over authorized access to assets are important to an organization, not only to prevent thefts, but also to ensure that assets are committed only after proper consideration by knowledgeable and experienced individuals. Authorization and approval are types of controls designed to prevent invalid or inappropriate transactions from occurring. An example is a procedure designed to ensure that disbursements are made only when authorized orders for goods and services have been received. In many systems, access to computerized records (e.g., shipping requests) can result in improper access to assets; therefore, procedures must be designed to limit access to these records.

Reconciliation and Comparison of Assets With Records

Reconciling and comparing assets with accounting records establishes a system of independent verification, either through preparing an independent control document used to reconcile accounting records and assets or by directly comparing accounting records with related assets. Examples of these procedures include the reconciliation of physical inventory with accounting records and the preparation of a bank reconciliation.

Analytical Reviews

The purpose of analytical reviews is to evaluate summarized information by comparing it with expected results. Management personnel often perform analytical reviews to determine whether the entity is performing as planned. For example, a common analytical review procedure is the comparison of budgeted to actual performance, with investigation of any significant or material variances as determined by the analyst. Often, analytical reviews are used to monitor other underlying control procedures.

Authorization and Approval

Authorization and approval procedures prevent invalid transactions from occurring. Thus, this type of control typically involves authorization or approval of transactions at specific dollar thresholds and manual (e.g., requiring signatures of authorized individuals) or automated (e.g., password protected) authorizations for computerized transactions. The effectiveness of these procedures often depends on general computer controls over information security.

Reviews of Output

Reviews of output should be performed by school district personnel who have the knowledge and experience to identify errors. Such reviews, which can be performed in both computer and manual systems, are used to check the validity and accuracy of output by comparing it in detail with expected results. For example, a purchasing manager may compare recorded amounts or quantities purchased with separate records of purchase orders.

Transactional Reviews

Transactional reviews check the validity and accuracy of transaction processing by comparing it in detail with expected results. Reviews often use exception reports (usually computer generated), which list items that could not be processed because they did not meet specified criteria. For example, a computer-generated check may be rejected if it exceeds some dollar

amount and requires a manual signature. Monitoring these types of control procedures involves management reviews of results.

General Computer Controls

Computer systems frequently have common areas of control and related control procedures referred to as general computer controls. These controls directly or indirectly affect all systems that operate within a computer-processing environment. General computer controls include the usual elements of effective internal control (that is, an individual or group responsible for control procedures and monitoring activities). Managers of the information systems function usually monitor the performance of general computer controls. Monitoring activities include observation, exception reporting, reviews of work performed, reviews of program changes, oversight by information system steering committees, and the monitoring of user complaints. For example, the effectiveness of programmed control procedures, such as edit checks and approvals, depends on general computer controls that ensure that program changes are not made improperly.

General computer controls include controls over computer operations; systems acquisition, development, and maintenance; information security; and information systems support, as detailed below:

- **Computer operations.** The computer operations staff is responsible for the day-to-day processing activities of the entity's system. It ensures that jobs are scheduled and processed as planned, data are properly stored on the system or tapes, and reports are distributed in a timely and accurate fashion.
- **Systems acquisition, development, and maintenance.** The systems acquisition, development, and maintenance staff is responsible for planning, acquiring (or developing), testing, and implementing new application systems and changes to existing application systems. Such controls are usually important in larger processing environments where there is more development and maintenance activity, where the systems are more complex, and where there is less reliance on purchased software.
- **Information security.** The information security function is responsible for administering and maintaining an entity's information security program, including both physical and logical security. The primary goal of such a program is to ensure that access to program data, online transactions, and other computing resources is restricted to authorized users.
- **Information systems support.** Information systems support includes system software maintenance, database administration, communications and network management, and end-user computing, as well as other functional groups with technical and administrative support responsibilities.

Certain governmental entities may use external service organizations for executing and recording certain transactions, such as payroll processing. In such situations, the entity needs to ensure that the service organization has adequate controls over processing the transactions.

In the final analysis, maintaining the internal control environment and related control procedures is an integral part of management's responsibilities. In the context of governmental accounting

and reporting, the control environment has a direct impact on an entity's ability to collect and present accurate financial information. Thus, the internal control environment and related procedures are key areas of concern to an entity's external auditor.

Other Issues Affecting Educational Entities

School districts are the most common type of special governmental units. In some states, school districts operate as a fiscally dependent part of another local governmental entity, such as a city or county; in other states, school districts are legislatively independent, with authority to levy taxes and set budgets. School districts may or may not have common boundaries with another political subdivision. Regardless of whether they are component units of another financial reporting entity, are joint ventures of several reporting entities (such as consolidated education agencies), or meet the definition in GASB Codification Section 2100 of a separate reporting entity, many school districts prepare separate financial statements to accomplish one or more of the following:

- support state or federal aid applications;
- report financial activities to parent, taxpayer, and citizen groups; or
- aid in preparing financial reports for use in an official statement for bond issuance purposes.

School districts face a number of unique issues that states, cities, counties, and other local governmental entities do not face. These issues often result in internal control and operational challenges that district management must address. Some of these issues are as follows:

- **Attendance reporting.** Most school districts receive state aid on the basis of average daily membership (ADM), average daily attendance (ADA), or a similar pupil count method. ADM and ADA data typically are determined at individual school sites and then reported to a central attendance unit. That unit prepares reports for state aid and, in many cases, for federal aid, such as impact aid. Incorrect attendance reporting can lead to the allocation of too much or too little aid.

- **Student activity funds.** In states where student activity funds are accounted for in the agency fund, most school districts have cash funds (or possibly bank accounts) at individual schools under the control of school principals or club advisors. These funds may be excluded from the district's normal accounting controls. These funds present a unique control challenge to school districts, given their decentralized nature and the production of financial records and reports by nonaccounting personnel. Additional guidance on these issues is given in chapter 8.

- **U.S. Department of Education requirements.** Federal reporting requirements and others mandated by state-level education agencies are typically more detailed than the account code structures of cities and other local governments. Thus, district accounting systems must have the ability to account for transactions at a level of detail beyond that required by other local governments. This issue is particularly complex for school district payroll systems, given the plurality of funding sources for district personnel and reporting requirements for personnel costs.

- **School lunch programs.** Most school districts participate in the U.S. Department of Agriculture (USDA) free or reduced-price food programs. These programs require school districts to segregate food service programs from other programs. School districts that receive federal commodities during the year should recognize the fair value as revenue in the period when all eligibility requirements are met—typically, when the commodities are received; see *Guide to Implementation of GASB Statement 34 and Related Pronouncements: Questions and Answers*, Q. 152 (GASB 2001) and *Comprehensive Implementation Guide—2012–2013: Questions and Answers*, Q. 2.20.4 (GASB 2012b). Because the federal agricultural commodity program involves purpose restrictions on the use of resources, the value of inventory remaining on hand at fiscal year-end should be reflected as a nonspendable fund balance/restriction of net position (GASB Statement 33, Paragraph 14, as amended by Statement 63). USDA-donated commodities may also pose accounting and reporting problems because of restrictive federal rules regulating their use.
- **Site-based management initiatives.** Over the past decade, many states and school districts have implemented site-based management initiatives. These initiatives have been designed to delegate to individual schools greater levels of authority over the use of financial resources. As a result, local administrators may control and report on the use of financial resources, even though they may lack financial management skills. This issue creates a challenge to district management in controlling financial resources and ensuring that reported results are correct.
- **Educational accountability.** Educational accountability has become a key policy issue at both the state and national levels, resulting in a number of recent reforms. Several educational accountability reforms have required school districts to collect and present school-level financial information. Moreover, school-level financial information is often related to nonfinancial information (e.g., student achievement data) in published reports and used for comparison purposes. Thus, school districts must increasingly focus on ensuring that the financial information reported by schools is accurate and consistent across the district.

Conclusion

In conclusion, school districts, like other governmental entities, must annually compile financial data and report on their financial position. Accounting and reporting standards for this information are set forth by a number of oversight agencies, including GASB, FASB, and AICPA. Reporting requirements are constantly evolving, most notably as a result of GASB Statement 34, but also because of even more recent guidance addressing deposit and investment risk disclosures, other postemployment benefits (OPEB), and information included in the statistical section of Comprehensive Annual Financial Reports. In recent years, governmental agencies, including school districts, have had to significantly increase their financial reporting to include government-wide financial statements as well as traditional fund reporting. Although GASB Statement 34 did not change the basic internal control expectations for governments, it, as well as other recent changes in GAAP, continues to present new financial reporting challenges for school districts.

Chapter 5: Financial Reporting

Financial reporting is the communication of information regarding a governmental unit's accounting activities; it encompasses a broad range of reporting activities, including presentation of the government's annual financial statements, grant applications, and related reports; financial information submitted to state and federal regulatory and granting agencies; budget-to-actual comparison reports; management reporting; and other financial reports for internal and external use. The variety of these reports is evidence of the wide demand for financial information from both internal and external users. As a result, the financial reporting systems and activities of governments must be capable of producing financial information in a variety of formats and levels of detail.

Although the financial reporting activities of governmental entities, including schools, must fulfill a range of user needs, this chapter outlines the financial reporting requirements under Generally Accepted Accounting Principles (GAAP). Therefore, this chapter deals primarily with the preparation and presentation of the governmental annual financial statements and related Governmental Accounting Standards Board (GASB) reporting standards. As discussed in the previous chapter, GASB Statement 34 and other recent pronouncements have significantly modified the basic reporting requirements for governmental entities. The reporting model requires the following financial statements and related information:

- Management's Discussion and Analysis (MD&A) as Required Supplementary Information (RSI);
- basic financial statements
  - government-wide financial statements;
  - fund financial statements;
  - notes to financial statements; and
- RSI other than MD&A.

The basic financial statements and RSI constitute the minimum requirements for external financial statements. The financial statement components and primary user groups are shown in exhibit 2.

Exhibit 2. Financial statement components and primary user groups

Financial statement components	Primary user groups
RSI (including MD&A)	Citizenry, legislators and oversight bodies, financial community
Government-wide financial statements	Citizenry and legislators
Fund financial statements	Oversight bodies, legislators, and financial community

The following section outlines the major financial statement elements and identifies the major requirements for presenting a government's annual financial statements. Unless otherwise noted, it may be presumed that accounting and financial reporting guidelines that apply to proprietary or fiduciary funds apply equally at the government-wide level of reporting.

Financial Statement Elements

The major elements of financial statements—assets, deferred outflows and inflows of resources, liabilities, fund balance/net position, revenues, expenditures, and expenses—are discussed below, as are the proper accounting treatments and disclosure requirements. However, the narrative does not exhaustively discuss all of the reporting requirements that school districts may face; therefore, district personnel should refer to the actual GASB statements or other definitive sources for detailed disclosure requirements and reporting formats.

Assets

Assets are defined as a probable future economic benefit obtained or controlled by a particular entity as a result of past transactions or events. The following typically represent the major asset categories:

- cash and investments;
- receivables;
- prepaid items;
- inventory; and
- capital assets.

Cash and Investments

Cash and investments often represent a large portion of the assets on a government's balance sheet. Because of the importance of these assets, proper management based on sound investment policies and strategies is vital, and the investment of excess funds is often governed by statute. Thus, many state governments have adopted legal frameworks that restrict the investment activities of local governments, including school districts. These restrictions often place limitations on the types of investments allowed, regulate procedures used to manage investments, and require governing bodies to institute certain review procedures.

The following discussion about cash and investments does not illustrate all the possible investment scenarios that a local government might use. However, the following five general rules may protect a school district from problems related to investment decisions:

- For public funds, the investment objectives should be safety of principal first, then liquidity, followed by yield.

- All investments should be made with consideration of the district's cash requirements and cash flows.

- The district must understand the investment instrument, the investment mechanics, and the associated risk of the investment. Specifically, the district must understand investment risks associated with credit ratings of instruments, interest rates, and foreign currency transactions.

Knowing the factors and variables that affect the market value of each investment will help the district to determine investment policies and strategies and to understand the external financial reporting requirements associated with investment management.

- School district personnel should know with whom they are dealing before purchasing an investment. This means researching any financial institutions or brokers/dealers that the district uses.

- Proper protection of investments includes acquiring legal ownership or custody of securities and ensuring that deposits have been properly insured and collateralized.

Certain words in common usage have more limited definitions when used in accounting and financial reporting. Within the context of governmental accounting, the following definitions describe the specific content of accounts used by governmental entities:

- *Cash* is considered to be the most liquid (i.e., readily available) asset owned by an entity.

- *Cash equivalents* are short-term, highly liquid investments (readily convertible to known amounts of cash) that are so near to maturity that they present an insignificant risk of changes in value resulting from changes in interest rates. Generally, only investments with original maturities of 3 months or less qualify under this definition. Items commonly considered cash equivalents are U.S. Treasury bills, commercial paper, short-term deposits in financial institutions, and money market funds. However, not all investments that qualify as cash equivalents are required to be treated as cash equivalents. Therefore, an entity should establish a policy concerning the classification of qualified investments as cash equivalents that may be no more liberal than the authoritative definition, except in the pooling of cash and investments (as discussed in the paragraph that follows this list). The policy must be disclosed in the notes to the financial statements.

- *Investments* are defined as securities and similar assets acquired primarily to earn income or profit. A security is a transferable financial instrument that evidences ownership or creditor status. Securities that are often held by or pledged to school districts include U.S. Treasury bills, notes, and bonds; federal agency and instrumentality obligations; direct obligations of a state or its agencies; commercial paper; negotiable and nonnegotiable certificates of deposit; fully collateralized repurchase agreements; and prime domestic bankers' acceptances.

The pooling of cash and investments provides several advantages, including better physical custody and control, enhanced investment opportunities, and ease of operations. It may also simplify custody, collection, and disbursement. In certain instances, the pooling of cash and investments may be prohibited in contractual clauses, such as bond indentures, or through legal restrictions. If the school district pools cash for investment purposes, the resulting pooled cash and investments may qualify as a cash equivalent for participating funds, even though individually some of the pooled investments would not meet that definition.

Financial Statement Presentation and Disclosure. The complexity and range of investment potential and the large amounts of cash and other assets present in most governmental units highlight the need to carefully capture and present these data in usable form. Cash and investment balances are segregated into individual funds and, depending on contractual requirements, may be classified as restricted assets. If a fund overdraws its share of a pooled cash account, the overdraft should be reported as a liability of that fund. Fund overdrafts of this type should be reported as interfund payables and receivables.

The required disclosures for cash and investments normally include, in addition to the disclosures required by GASB Statements 3 and 40 (see the following paragraph), the valuation basis of investments (i.e., investments should be stated at a fair value that approximates their market value). Changes in fair value are included as a component of investment income.

The detailed disclosure requirements for cash and investments have been established in GASB Statement 3, *Deposits With Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements* (issued in April 1986); GASB Statement 28, *Accounting and Financial Reporting for Securities Lending Transactions* (issued in May 1995); GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* (issued in March 1997); and GASB Statement 40, *Deposit and Investment Risk Disclosure—An Amendment of GASB Statement No. 3* (issued in March 2003).

Although it would probably be uncommon for governmental entities that use this guide to have endowments that include land or real estate, it may occur in certain circumstances. Endowments that include land and other real estate for investment purposes previously reported such investment assets at cost. However, GASB Statement 52, *Land and Other Real Estate Held as Investments by Endowments,* now requires such holdings to be reported at fair value as of the reporting date.

In June 2008, GASB issued GASB Statement 53, *Accounting and Financial Reporting for Derivative Instruments.* The GASB literature describes derivative instruments as being "…often complex financial arrangements used by governments to manage specific risks or to make investments." In other words, derivative instruments may be used as an investment; as a hedge against financial risks associated with assets, liabilities, or expected transactions (e.g., volatility of cash flows or fair values); or as a way to effectively lower the costs of borrowing (e.g., interest rate swaps). For those few governmental entities that are affected by this guidance, the accounting and financial reporting requirements are extensive. It is beyond the scope of this publication to detail the accounting and financial reporting implications of such arrangements.

For GASB Statement 53, as well as all others, the entity's external auditor should be consulted regarding implementation, accounting, and financial reporting requirements for all types of cash and investments.

Receivables
Receivables are generally recognized when a service is performed and/or goods are delivered. Receivables usually arise as a result of revenue transactions. The following are the main sources of revenues for school districts that could result in outstanding receivables:

- property taxes;
- state and federal grants;
- intergovernmental revenues (due from other governmental entities); and
- interest income.

The method of accounting for revenues in governmental entities depends on the type of fund in which the revenue is recorded.

Because governmental funds use the modified accrual basis of accounting, governmental fund revenues should be recognized in the accounting period in which they become susceptible to accrual—that is, when they become both measurable and available to finance expenditures of the fiscal period. “Available” refers to the collectibility of the receivable within the current period or soon enough thereafter to be used to pay for liabilities of the current period. A general criterion for availability is 60 days, although a longer or shorter period may be used, except for property taxes (where the maximum period may not be more than 60 days). The availability period will be disclosed in the notes to the financial statements. Each entity should adopt a revenue accrual policy that implements the susceptibility-to-accrual criterion and applies it consistently. This policy should also be disclosed in the notes to the financial statements.

Proprietary funds use the accrual basis of accounting to determine when revenues and related receivables should be recorded. Revenues are recognized when they are earned—that is, when the earnings process is complete and an exchange has taken place.

GASB Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions*, and Statement 36, *Recipient Reporting for Certain Shared Nonexchange Revenues—An Amendment of GASB Statement 33*, may have an impact on a governmental entity’s reporting of revenues related to certain nonexchange transactions. Entities should consult these statements and their external auditors to determine the impact.

Property Taxes Receivable. Property taxes are generally assessed to finance expenditures of a specific fiscal year. On the assessment date or levy date, the property taxes become a lien against the assessed property. Property taxes should be recorded in the governmental funds by using the modified accrual basis of accounting (i.e., when they are both measurable and available). The amount of the property taxes receivable is based on the assessed value of the property, the current property tax rate, and an estimate of the uncollectible portion. When taxes are levied, the revenue and related receivable should be recognized, net of the estimated uncollectible portion. A receivable is usually recognized at the time an enforceable legal claim arises. The revenue is usually recognized in the first period in which the use of the revenues is permitted or required.

If taxes that are levied to finance a subsequent fiscal period are collected in the current period, the amount collected should be recorded as a deferred inflow of resources. In the next fiscal year, a journal entry will be recorded to recognize the revenue amount that was collected in advance.

When property taxes are delinquent but are expected to be collected, they should be reported in the fund financial statements as a deferred inflow of resources if it is estimated that the taxes will not be available to pay current obligations of the governmental fund. This situation indicates that the delinquent property taxes are not expected to be collected within 60 days of the close of the fiscal year, although a shorter availability period may be used. This “60-day rule” is established by GAAP and cannot be exceeded, even if the district’s collection period occurs shortly thereafter.

Due From State. This receivable represents amounts from state resources that exceed the amounts received during the fiscal year for which the school district has met all eligibility requirements. A district should also use the measurable and available criteria that are consistent with the modified accrual basis of accounting in the governmental funds to record revenues due from the state. Revenue due from the state for which all eligibility requirements were met during the fiscal year, and which is expected to be received within the availability period (e.g., 60 days) from the financial statement date, should be recorded as a receivable using this account.

Due From Federal Agencies. This account represents amounts for which all eligibility requirements have been met by a district under a federal financial assistance program and that are expected to be available to finance current liabilities. Such revenues are usually accounted for in the general fund or special revenue funds using the measurable and available criteria, as appropriate for a modified accrual-based fund. If this is an expenditure-driven grant, revenues may be recognized only to the extent that expenditures have been incurred.

Due From Other Governments or Agencies. In some instances, districts become eligible for revenue from other governments or agencies through grant programs or by providing services. The receivable earned from such revenue should be recorded only if it also meets the measurable and available criteria. Thus, when the revenue has been earned under the grant program, or when the services have been provided, the district should recognize the revenues and receivables for the amount earned. In addition, if the amount of an outstanding receivable at the end of a fiscal year is not expected to be collected within the availability period (e.g., 60 days) from the financial statement date, the district should record a deferred inflow of resources for the outstanding amount.

Accrued Interest Receivable. Accrued interest represents the amount of interest at the end of an accounting period on all cash accounts and investments held at that date. Accrued interest should be computed for all investments and cash accounts held by the government that generate interest earnings regardless of the expected payment date.

Inventory
Governmental accounting generally requires that amounts spent to purchase goods be recorded as an expenditure at the time of the purchase. An exception to this general rule is made for inventory. If the amount of inventory on hand at year-end is significant, the value of such inventory should be recorded as an asset. This is considered the "purchase method," under which the portion of the fund balance relating to inventory is classified as nonspendable. Inventory may also be recorded as an expenditure when it is consumed, rather than when it is purchased. Under the "consumption method," purchase transactions are first recorded in the inventory account. As inventory is actually used, an entry to recognize the expenditure is posted to the appropriate accounts. This method is required for the proprietary funds.

It is not uncommon for school districts to have a relatively high level of inventory at the end of the fiscal year, because this often coincides with the start of a new school year. In addition to the balance sheet presentation, note disclosure regarding the method of accounting for inventory should be made. Districts often distribute inventoried supplies to schools prior to fiscal year-end to accommodate the beginning of the new academic school year. Such inventories may either be included in inventory at year-end or recorded as an expenditure in the year of distribution.

For the entity-wide statements, the consumption method must be used. If the purchase method is used in the governmental funds and it produces a different result from the consumption method, the difference should be included in the reconciliations of governmental funds to governmental activities; see *Guide to Implementation of GASB Statement 34 and Related Pronouncements: Questions and Answers,* Q. 23 (GASB 2001) or *Comprehensive Implementation Guide—2012–2013: Questions and Answers,* Q. 7.8.6 (GASB 2012b).

Inventories in school districts generally represent goods that are insignificant individually, but are significant as a whole. These items may be described as follows:

- Consumable goods that have a relatively short shelf life. Common examples are office supplies, paper, computer supplies, building and maintenance supplies, and science lab supplies.

- Items that are expected to be used within a short time, including cafeteria foods, such as commodities received from the U.S. Department of Agriculture (USDA).

- Tangible personal property that is durable but does not meet the entity's criteria for capitalization as an asset. Examples are textbooks, calculators, and physical education equipment.

The accounting for inventory can be broken down into the following two general areas:

- monitoring and valuation of inventory; and
- accounting for transactions related to inventory.

For internal control purposes, these two functions should be performed by individuals (or departments, if the district is of sufficient size) that are organizationally independent. The results

of the two processes should then be reconciled by personnel external to these functions. This segregation of duties will improve the internal controls over inventory and may mitigate the risks of theft or defalcation.

Accounting for and Control of Inventory. Governmental entities have several options for physical counts of inventory. Independent auditors are required by generally accepted auditing procedures to conduct physical observations of inventories at least annually when such inventories are material to the district's operations. The physical observations should be conducted as of the balance sheet date or as of a single date that is within a reasonable time before or after the balance sheet date. The independent auditor is usually present at the time of the inventory to assess the effectiveness of the inventory-taking procedures and to determine the reliance that can be placed on the entity's representations relating to the physical condition and quantities of the inventory. The most common physical inventory count methods are

- cycle counts;
- full counts taken at fiscal year-end; and
- full counts taken at times other than fiscal year-end.

Accounting for Commodities. School districts that receive federal commodities during the year should recognize the fair value as revenue in the period when all eligibility requirements are met—typically, when the commodities are received; see *Guide to Implementation of GASB Statement 34 and Related Pronouncements: Questions and Answers,* Q. 152 (GASB 2001) or *Comprehensive Implementation Guide—2012–2013: Questions and Answers,* Q. 2.20.4 (GASB 2012b). Because the federal agricultural commodity program involves purpose restrictions on the use of the resources, the value of inventory remaining on hand at fiscal year-end should be reflected as nonspendable fund balance/restriction of net position (Statement 33, Paragraph 14, as amended by Statement 63). However, there may be instances in which resources are transmitted before the eligibility requirements are met. These resources would be reflected by the recipient as a liability.

Pension Assets/Liabilities

GASB recently issued Statement 68, which provides accounting and financial reporting guidance for employers that offer pension plans. This guidance significantly changes the manner in which an employer reports potential pension liabilities. In short, the net pension liability is the portion of the actuarial present value of projected benefit payments net of the pension plan's net resources. The net pension liability is reported by the reporting government if it sponsors a single employer plan. If the employer is a participant in a cost-sharing plan, then the employer would report its proportionate share of the overall net pension liability. As such, it would be exceedingly rare for plans to have a negative net pension liability that would be reported as an asset.

The new pension guidance does not, however, modify the current method of reporting other postemployment benefit (OPEB) plans, which include health care, life insurance, disability, long-term care, and other benefits. Thus, for OPEB, an asset would be recognized by an employer for contributions to the plan that are greater than the OPEB expense and amortized against the OPEB

costs of the employer when due. Potential changes to OPEB reporting will be the subject of a future GASB project.

Capital Assets

Governmental entities are responsible for accounting for, controlling, and reporting both current and capital assets. Capital assets have certain properties that distinguish them from other types of assets. Capital assets are

- tangible or intangible;
- long-lived (have a life longer than 1 year);
- of a significant value at the time of purchase or acquisition; and
- reasonably identified and controlled through a physical inventory system

Capital assets may include the following:

- land and land improvements;
- easements;
- buildings and building improvements;
- vehicles;
- machinery and equipment;
- technological assets such as computers and network equipment;
- initial library collections;
- works of art and historical treasures (discussed separately below);
- infrastructure (discussed separately below); and
- intangible assets (discussed separately below).

Governmental accounting places an emphasis on the control and accountability of capital assets. This emphasis requires that data be maintained on the

- quantity and types of assets;
- location of assets; and
- life expectancy of assets.

Capital asset records are necessary to demonstrate accountability for the custody and maintenance of individual items and to assist in projecting future requirements. All transactions for the acquisition of capital assets should be controlled through a well-defined authorization procedure. If the budget does not authorize the purchase of specific items, approval power, subject to specific monetary limits, should be assigned to the chief administrator or to a person

designated by the chief administrator. The entity should adopt policies to govern this situation even if it has not been an issue in the past.

Basis of Capital Assets. Capital assets are included in the financial records at cost. In some situations, the purchase or acquisition documents may not be available for capital assets already on hand. If reliable historical records are not available, an estimate or appraisal of the original cost based on other information, such as price index levels at the time of acquisition, may be used. The intent of such valuation is to record a fair value at the date of acquisition and not expend excessive resources in ascertaining exact costs.

Capital assets may be acquired by any of several methods:

- purchase;
- lease-purchase;
- internal generation (e.g., internally designed software);
- construction;
- tax foreclosure; and
- gifts or contributions.

All capital assets acquired in some manner other than as a gift are recorded at the cost necessary to place the asset in service. Capital assets arising from gifts or contributions are recorded at their estimated fair value at the time of receipt.

Capital Asset Reporting. GASB Statement 34 established reporting requirements for general government capital assets, as follows:

- Depreciable capital assets should be reported in the statement of net position (a government-wide statement) at historical cost, net of accumulated depreciation.

- The historical cost should include the ancillary charges necessary to place the asset into its intended location and condition for use, including freight and transportation charges, site preparation costs, and professional fees that directly relate to the acquisition of the asset.

- Depreciable capital assets may be reported on the face of the statement of net position as a single item or by major class. Detailed information should be reported in the notes to the financial statements.

- Significant nondepreciable capital assets that are inexhaustible (such as land), certain nondepreciable site improvements, and infrastructure assets reported using the modified approach should be reported separately from depreciable capital assets on the statement of net position. GASB has defined an inexhaustible capital asset as one whose economic benefit or service is used up so slowly that its estimated useful life is extraordinarily long. Construction in progress should be included with nondepreciable capital assets in the statement of net position.

- Accumulated depreciation may be reported on the face of the statement of net position, either parenthetically or as a separate line item reducing capital assets. However, regardless of the presentation in the statement of net position, the notes to the financial statements should disclose balances and changes in accumulated depreciation for the period by major asset class, as well as information regarding the depreciation methods used.

In addition to the GAAP reporting requirements referred to above, GASB issued Statement 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. Governmental entities, including school districts, are required to report the financial effects of capital impairments when the service utility of a capital asset has permanently declined significantly and unexpectedly. Though such events are generally rare, standardized guidance now exists to assist districts in accounting for and reporting significant capital asset impairments. In brief, Statement 42 establishes the following:

- a standardized definition of a capital asset impairment (i.e., "a significant, unexpected decline in the service utility of a capital asset" that is deemed to be permanent);

- definitive guidance that impaired capital assets no longer being used should be reported at the lower of carrying value or fair value;

- a variety of measurement options for impaired capital assets that are still being used and how such losses should be reported in the financial statements; and

- guidelines for reporting insurance recoveries.

Note disclosures associated with capital asset impairments are summarized later in this chapter.

One of the most common challenges that governmental entities of all types face involves tracking capital assets for government-wide reporting. Capital assets are not reported within governmental funds as assets, but as expenditures when purchased (consistent with the current financial resources measurement focus and the modified accrual basis of accounting). However, capital assets related to the governmental funds are reported at the government-wide level. This often poses a challenge in that capital assets for governmental funds have to be tracked as expenditures throughout the year, but then "converted" to asset reporting at the government-wide level at the end of the year.

One common approach to prepare for the preparation of the government-wide statements is to maintain internal records, apart from the general ledger, that track the acquisition of the capital assets. Many entities simply compile a list of capital asset purchases that will be capitalized at the government-wide level as they occur (similar to how entities maintained account groups before the issuance of GASB Statement 34). At the end of the year, there is then a total amount that will be reported as part of the assets of the governmental activities and offset by the net investment in capital assets equity account.

Capitalization Thresholds, Estimated Useful Lives, and Depreciation Methods for Capital Assets. Given the requirements in GASB Statement 34 to depreciate general capital assets, governments must establish a range of policies regarding capitalization thresholds for capital assets, estimates for useful lives, and depreciation methods. Statement 34 does not prescribe policies in any of these areas; however, note disclosure is required. Management is granted the discretion to determine appropriate policies for control purposes in accordance with the laws and regulations under which the entity operates. Some states have established specific regulations surrounding capital assets; therefore, school districts should consult state sources in establishing new policies.

Capitalization Thresholds. Capitalization threshold refers to the dollar value threshold at which purchases of assets will be capitalized in the financial records of the governmental entity (i.e., within the proprietary funds, fiduciary funds, and government-wide financial statements) rather than recorded as an expense at the time of purchase (except in the governmental funds, where they remain as an expenditure). Many assets having useful lives greater than 1 year do not have values that are material to the entity's financial statements. Additionally, the costs of tagging, tracking, and accounting large numbers of immaterial items may be considered excessive by the entity. As a result, many local governments establish capitalization thresholds that exclude reporting these items as capital assets and instead rely on systems other than the financial management system for tracking and control purposes (e.g., computer inventories, building equipment lists, maintenance systems).

In determining an appropriate capitalization threshold, entities should consider the following factors:

- total value of all capital assets;
- impact of the new/revised capitalization threshold on values reported in the statement of net position;
- value of any related debt (financial statement presentations may be misleading if significant assets acquired through debt are excluded by the capitalization threshold);
- costs associated with tracking and reporting assets; and
- applicable state or federal requirements (typically for grant funds).

Several resources exist to guide governmental entities in making informed decisions related to asset capitalization thresholds, including industry guidelines for specific assets, state auditors' and comptrollers' guidelines for state agencies, and the implementation guide produced by the Association of School Business Officials (ASBO) International. These resources are typically available via state websites.

Finally, local governmental entities should review applicable state and federal requirements related to asset capitalization in determining appropriate policies. For example, the federal government uses a dollar threshold of $5,000 for federal grant management purposes. This

threshold may have an impact on an entity's policies, particularly as it relates to capital assets that are acquired with federal grant funds. A threshold should only apply if the item has a useful life of 1 year or more. It is highly recommended, however, that a threshold for capitalization—or for the coding purposes outlined in the object codes within chapter 6 or within appendix E—not be less than $500. The Government Finance Officers Association (GFOA) has recommended a capitalization threshold of not less than $5,000, but ultimately the threshold limit is up to the school district or state.

Estimated Useful Lives. The estimated useful life of an asset is the period (of months or years) that the asset will be used for the purpose for which it was purchased. In determining the estimated useful life of an asset, consideration must be given to the asset's present condition and intended use, maintenance policy, and how long the asset is expected to meet service and technology standards. School districts may use general guidelines obtained from professional or industry organizations, information on comparable assets of other school districts/governments, and internal historical data. The determination of appropriate estimated useful lives is a management decision that is affected by a number of factors:

- experience with asset management;
- plans for asset use;
- property management practices;
- asset maintenance practices; and
- applicable federal or state regulations.

Many sources of information are available to assist in establishing appropriate policies in this area, including the following:

- GASB Statement 34 implementation guides issued by state education agencies and other key state agencies, including state auditors and comptrollers. Many of these agencies have websites that contain information about the useful lives of various asset classes in the state.

- GASB Statement 34 implementation guide for schools issued by ASBO International. This guide discusses capitalization policies and depreciation methods at length.

A periodic reassessment of the estimated useful lives of capital assets may be appropriate. Any change in the useful life of a capital asset should be applied prospectively in accordance with Accounting Principles Board Opinion 20 (now codified into the GASB literature as GASB Statement 62).

Web searches can render informative policies and recommendations from many governmental entities regarding the valuation of assets, the assignment of useful lives, and other similar information. For example, searches can be used to locate specific accounting or GAAP reporting manuals for each state. Note, however, that web addresses tend to change over time as websites are updated or removed.

Depreciation Methods. GASB Codification Section 1400.113 states that "depreciation expense should be measured by allocating the net cost of depreciable assets (historical cost less estimated salvage value) over their estimated useful lives in a systematic and rational manner" (GASB 2010). Although GASB requires governmental entities to depreciate capital assets (other than nonexhaustible assets), the statement does not prescribe a method. As a result, depreciation methods are a management decision that should be based on the resources necessary to determine the various calculations and the capabilities of asset management systems. In addition to composite or group methods, any established depreciation method may be used (e.g., straight-line, sum-of-the-years' digits, or double-declining balance).

It should be noted, however, that the most common depreciation method used by governmental entities, including school districts, is the straight-line method. There are several reasons for this. First, it is a simple yet rational method that allocates depreciation based on the capital assets' useful life. Also, it is the primary method that incorporates the potential of salvage value in the calculation. Some would argue that GASB Codification Section 1400.113 implies a preference for the straight-line method simply because it refers to the potential inclusion of a salvage value in the depreciation calculation. Thus, while not specifically required for governmental entities, it is the method most commonly used. An example calculation using the straight-line depreciation method is as follows (see exhibit 3):

Exhibit 3. Straight-line depreciation method

Historical cost of equipment	$45,000
Estimated salvage value	$5,000
Estimated useful life	8 years
Annual depreciation expense calculation	($45,000 – $5,000) / 8 years = $5,000 depreciation expense per year

Thus, accumulated depreciation, a contra-asset account, would increase by $5,000 each year. Accordingly, the annual depreciation expense would be $5,000. At the end of year 6, the accumulated depreciation associated with the capital asset would be $30,000 ($5,000 × 6 years) and the net book value of the capital asset would be $10,000 (see exhibit 4):

Exhibit 4. Accumulated depreciation method

Original cost minus salvage value	$45,000 – $5,000 = $40,000
Accumulated depreciation at the end of year 6	$30,000
Net book value calculation	$40,000 – $30,000 = $10,000

Depreciation may be calculated for individual assets or it may be determined for a

- class of assets;
- network of assets; or
- subsystem of a network.

The depreciation method can vary for different categories of assets.

To simplify the calculations involved, the composite method may be used to calculate depreciation expense. It is applied to a group of similar assets or dissimilar assets in the same class using the same depreciation rate, but not across classes of assets. The estimated life for the group may be based on the individual weighted average, the simple average of the useful lives of the assets in the group, or the weighted average or assessment of the life of the group as a whole. This method assumes no salvage value for assets; therefore, it simplifies the calculations and the recording of asset dispositions.

Finally, as is noted below, a relatively new class of capital assets that would qualify for amortization is intangible capital assets. Similar to the concept of depreciation for tangible capital assets, amortization for intangible assets is most commonly executed using the straight-line method. The useful life should equal the service capacity expectations of the capital asset, and it should not exceed the length of any contractual provisions. An intangible asset with an indefinite useful life should not be amortized.

Works of Art and Historical Treasures. Works of art, historical treasures, and similar assets are a special class of capital assets that may require developing a specific capitalization and depreciation policy. These assets are defined as items held singly or in collections that meet all of the following conditions (GASB Statement 34, Paragraph 27):

- held for public exhibition, education, or research in furtherance of public service rather than financial gain;
- protected, kept unencumbered, cared for, and preserved; and
- subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

Historical buildings, monuments, and fountains are capital assets that may qualify as works of art, historical treasures, or similar assets if they meet the requirements above. School districts that have collections meeting these criteria may choose not to capitalize these collections of works of art or historical treasures.

Depreciation is not required for those capitalized collections or individual items that are considered to be inexhaustible. Inexhaustible collections of individual works of art or historical treasures are those with extraordinarily long useful lives. Because of their cultural, aesthetic, or historical value, the holder of the asset applies efforts to protect and preserve the asset in a manner greater than that for similar assets without such cultural, aesthetic, or historical value.

Intangible Assets. GASB issued Statement 51, *Accounting and Financial Reporting for Intangible Assets,* to provide definitive accounting and financial reporting guidance related to a variety of intangible assets. Intangible assets include, but are not limited to

- easements;
- contractual rights;

- patents;
- trademarks; and
- computer software.

While the concept of an intangible asset, and the reporting of those intangible assets, has been evident for decades, the absence of specific authoritative guidance resulted in many inconsistencies among governmental entities related to actual accounting and financial reporting practices. While much of what is included in Statement 51 represents general practice that was already in wide use (e.g., classification of intangible assets as capital assets), it also provides guidance in a variety of areas (e.g., internally generated assets, amortization issues) that are relatively new to public sector practice and are certainly new to governmental GAAP authoritative literature.

Of the several types of intangible assets identified above, the most common one for most school districts would probably be computer software. Therefore, the accounting and financial reporting guidance within this publication focuses on computer software, including internally generated software.

In general, an intangible asset should be classified as a capital asset. To be reported on a statement of net position, an intangible asset should be *identifiable* (i.e., the asset is separable and can thus be bought, sold, or transferred or the asset arises from contractual or legal rights). An internally generated intangible asset is one that has been created or produced by the government (or contracted for production by the government).

In order for outlays for internally generated assets to be eligible for capitalization, the following three criteria must be met:

- objective and service capacity of the asset should be determined;
- feasibility of the project has been demonstrated; and
- clear intention has been established and demonstrated to continue and complete the project.

In addition, management must also have authorized and committed funding for the project before any outlays may be considered capitalizable. Thus, the capitalization period begins with the authorization of, and formal commitment, to the project and ends when the project is substantially completed. Any outlays in the pre- and post-capitalization phases would be expensed.

Again, one of the most common examples of internally generated capital assets would be internally generated software. The development of a website or similar web-based application might also qualify, but it should be noted that the three criteria mentioned above create a relatively high bar for projects of any type to qualify.

Technology-Related Assets. Technology-related assets are a class of capital assets that may require special treatment and reporting by school districts based on local or state reporting and accountability requirements or policies. Although technology-related assets are not dissimilar from other capital assets (such as vehicles or furniture and fixtures), the resources dedicated to the installation and ongoing support and use of technology by school districts have resulted in an increased level of interest by policymakers and citizens. Thus, many school districts have instituted special accounting and reporting practices associated with expenditures for technology-related assets.

To facilitate the proper accounting and reporting of technology expenditures by school districts, "Chapter 6. Account Classification Descriptions" in this handbook establishes a number of expenditure and asset reporting codes. As is outlined in chapter 6, school districts should account for technology-related expenditures according to the following principles:

- Expenditures related to technology and media-related activities used in the classroom (function code 1000) should be segregated from those associated with activities that support instruction (function code 2300), which in turn should be segregated from those associated with administration at the school (function code 2400) or district (function code 2580) level.

- Expenditures associated with services purchased to support technology should be distinguished from other types of purchased and professional services. Expenditure object codes 351 and 352 have been established for this purpose.

- Expenditures associated with the rental of computer and other technology equipment should be distinguished from other types of rentals. Expenditure object code 443 has been established for this purpose.

- Communications expenditures should include all costs associated with voice, data, and video communications charges regardless of the media used (expenditure object code 530).

- Expenditures for software should be reported as a supply (object code 650). This includes fees for licenses to use software. Services, such as subscriptions to research materials over the Internet, should be reported as object code 530.

- Technology supplies should be segregated from other types of supplies. Expenditure object code 650 has been established for this purpose.

- Purchases of technology capital equipment should be tracked specifically for analysis purposes. Expenditure object codes 734 and 735 have been established for this purpose.

Using these codes to account for and report on technology-related costs will allow school districts to

- capture information on both instructional and administrative technology costs; and

- accumulate the total expenditures associated with technology for operating purposes (expenditure object codes 351, 352, 443, 530, and 650) and capital purchases (expenditure object codes 734 and 735).

Although chapter 6 addresses many of the key issues related to tracking and reporting on technology-related costs, school districts will still need to establish capitalization and depreciation policies for technology assets. School districts should capitalize only those technology assets that meet their local policies in this area. Noncapital technology purchases should be treated as supplies for reporting purposes (expenditure object code 650).

E-Rate

E-Rate is not currently addressed within the new accounting codes for technology, as is noted in chapter 6 in this handbook. E-Rate is a discount, ranging from 20 to 90 percent, available to schools and libraries for telecommunications services, internet access, and internal wiring to connect classrooms to the Internet (http://www.sl.universalservice.org). The program may also involve reimbursements from telecommunications vendors or the Federal Communications Commission (FCC) for costs incurred related to these services or access. School districts must apply to participate in this FCC program, which began in 1997 when the FCC adopted a Universal Service Order to implement the Telecommunications Act of 1996.

The level of the E-Rate discount is determined by the percentage of students eligible for free or reduced-price lunch under federal guidelines. Libraries use free or reduced-price lunch status and an urban/rural classification to determine their discount. Schools must develop a technology plan that is approved by an independent agency, such as a state department of education or a library agency. A school district or library must submit a self-certification of eligibility to the Schools and Library Division of the Universal Service Administrative Company, which administers the discount program. Schools and libraries pay only the nondiscounted portion of their costs. The vendor of the services and the school district enter into a contract. The school district is billed at the discounted rate or may be reimbursed by the vendor or by the FCC if the district pays the full rate. The vendor receives a payment from the school district that is based on the discounted rate and then receives a payment from the Universal Service Fund administrator for the remainder.

The method of recognition of E-Rate as a financial resource in the accounting records may differ depending on whether it is a reimbursement or a discount. As a result, inconsistencies exist in current practice regarding the accounting treatment afforded E-Rate. NCES suggests, as a matter of practice, that E-Rate be netted against the expenditure if it was received in the same fiscal year or coded as a Refund of Prior Year's Expenditures if it was received in a subsequent fiscal year (source code 1980).

Infrastructure Assets

Infrastructure assets are long-lived capital assets that are normally stationary and can be maintained for a significantly longer period of time than most other capital assets. Infrastructure assets include the following:

- roads;
- bridges;

- drainage systems;
- water and sewer systems; and
- lighting systems.

Parking lots and related lighting systems may be defined by the entity as part of the associated building, rather than as infrastructure. Most school districts have either no infrastructure assets or an immaterial amount.

Reporting Requirements. Infrastructure assets have several reporting requirements, as follows:

- In general, governmental entities are required to report all general infrastructure assets acquired during the year of GASB Statement 34 implementation and thereafter.

- Governmental entities are required to capitalize and report *major* general infrastructure assets that were acquired in fiscal years ending after June 30, 1980, or that received major renovations, restorations, or improvements during that period. Governments with revenues of less than $10 million (annually) are not required to report their infrastructure assets retroactively.

- Statement 34 defines major general infrastructure at the subsystem or network level on the basis of the following criteria:

  - the cost or estimated cost of the *subsystem* is expected to be at least 5 percent of the total cost of all general capital assets reported in the first fiscal year ending after June 15, 1999; or
  - the cost or estimated cost of the *network* is expected to be at least 10 percent of the total cost of all general capital assets reported in the first fiscal year ending after June 15, 1999.

- The reporting of nonmajor networks is encouraged, but not required.

In determining when to implement the retroactive infrastructure asset reporting requirements, governmental entities should consider the value of any related debt that will be reflected in the statement of net position.

Valuation of Infrastructure Assets. Infrastructure assets are reported at historical cost or estimated historical cost. If a determination of the historical cost is not viable because of incomplete records, an estimated historical cost may be determined in one of the following ways:

- Using standard costing, which relies on available records from the period of acquisition to estimate asset cost. These records may include historical documents, such as invoices for similar assets and vendor catalogs from the acquisition period.

- Calculating the current replacement cost of a similar asset and deflating this cost back by using price-level indexes to the year or average year of acquisition. Refer to http://www.fhwa.dot.gov/programadmin/publicat.htm for the *Price Trends for Federal-Aid*

Highway Construction, published by the U.S. Department of Transportation, Federal Highway Administration, Office of Program Administration, Office of Infrastructure.

Depreciation of Infrastructure Assets. GASB Statement 34 allows two distinct approaches to reporting infrastructure assets in the statement of net position. The standard approach requires governmental entities to capitalize all major infrastructure assets and depreciate them over their useful lives. This approach does not differ from the accounting and reporting treatment of other types of capital assets. Alternatively, entities may elect to use a modified approach to infrastructure asset reporting under a specific set of conditions. The modified approach allows governmental entities to capitalize assets yet avoid the depreciation of their eligible infrastructure assets if they meet the following two criteria:

- The entity has a qualifying asset management system that
  - has an up-to-date inventory of infrastructure;
  - performs consistent and complete condition assessments every 3 years, the results of which are summarized using a measurement scale; and
  - can estimate, on an annual basis, the cost to maintain and preserve the infrastructure assets at the disclosed condition level; and
- The entity documents that the eligible infrastructure assets are being preserved approximately at or above a condition level established and disclosed by the government.

The modified approach is not limited to general infrastructure assets—infrastructure assets associated with governmental activities. Eligible infrastructure assets of enterprise funds that were previously depreciated may also be reported using the modified approach.

If entities choose the modified approach for reporting general infrastructure assets, they are required to present information on condition and on estimated versus actual maintenance as Required Supplementary Information (RSI).

Entities should consult their external auditors and the detailed disclosure requirements outlined in GASB Statement 34 to determine policy decisions concerning the modified approach of infrastructure asset reporting.

Deferred Outflows and Inflows of Resources

GASB Statement 63 uses the definitions of deferred outflows and inflows of resources found in GASB Concepts Statement No. 4, *Elements of Financial Statements.* A deferred outflow of resources is defined as "a consumption of net assets by the government that is applicable to a future reporting period" and a deferred inflow of resources is defined as "an acquisition of net assets by the government that is applicable to a future reporting period." While it is possible for these elements to be reported on a governmental fund balance sheet, it is more common for them to be reported on a statement of net position in proprietary or fiduciary fund statements and government-wide statements. Currently, there are only two situations where this reporting would

come into play (i.e., changes in the fair value of qualified hedging derivatives and consideration received in a service concession arrangement), and neither would be common for governmental entities that use this guide.

However, GASB recently issued Statement 65, *Items Previously Reported as Assets and Liabilities.* This statement builds upon the foundation of reporting deferred outflows of resources and deferred inflows of resources found in GASB Statement 63. Certain items that were previously reported as assets or liabilities are now reclassified as deferred outflows of resources or deferred inflows of resources, respectively. In other cases, some items are now recognized as an outflow of resources (i.e., expenditure/expense) instead of as an asset or as an inflow of resources (i.e., revenue) rather than as a liability. The following are the reclassified items that that entities that use this guide would most commonly encounter.[4]

Refundings of Debt
GASB Statement 65 slightly modifies the reporting for current refundings and advance refundings that result in the defeasance of debt, as originally established in GASB Statement 23. The difference between the reacquisition price and the net carrying amount of the old debt should be reported as a deferred outflow of resources or a deferred inflow of resources instead of as an asset or liability, respectively. The amount should then be amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter.

Imposed Nonexchange Revenue Transactions
The most common type of imposed nonexchange transaction is property taxation. A deferred inflow of resources should be reported when resources associated with the imposed nonexchange transaction are received either before the period it was intended to finance or the period in which the resources were required or first permitted to be used. Thus, most prepaid taxes will be reported as a deferred inflow of resources.

Government-Mandated Nonexchange Transactions and Voluntary Nonexchange Transactions
Providers (e.g., grantors) of these types of nonexchange transactions typically establish certain eligibility requirements. If these resources are transmitted before the eligibility requirements are met (not including time requirements), they should be reported as *assets* by the *provider* and as *liabilities* by the *recipient*. However, if the resources are transmitted by the provider and received by the recipient before the timing requirements are met—but after meeting all other eligibility requirements—then the provider should report the resources as a deferred outflow of resources and the recipient should report them as a deferred inflow of resources.

Debt Issuance Costs
One of the more significant changes to current reporting requirements as a result of GASB Statement 65 is the requirement to now report all debt issuance costs (with the exception of prepaid bond insurance) as a current period expense for proprietary funds and government-wide reporting (they are already reported as a current period expenditure for governmental funds and

[4] GASB Statement 65 should be consulted if more complex scenarios that involve the sale of future revenues, sales-leaseback transactions, elaborate lending activities, commitment fees, regulated operations, or mortgage banking activities are a reporting issue for the entity.

will remain so). Prepaid bond insurance would still be a type of prepaid cost that will be amortized.

Revenue Recognition in Governmental Funds
Revenues are recognized in governmental funds in the accounting period in which they become both measurable and available. For revenues or other resources that have not met the availability criterion, the government should report a deferred inflow of resources until they become available.

Use of the Term "Deferred"
GASB Statement 65 stipulates that the term "deferred" should now only be used with items reported as a deferred outflow of resources or a deferred inflow of resources. Therefore, entities should refrain from using terminology such as "deferred revenue."

Liabilities

Liabilities represent financial obligations of an entity to transfer assets or provide services to other entities in the future as a result of past transactions or events. Although governments are required to record liabilities in the period in which they are incurred, it is necessary to distinguish obligations that represent fund liabilities, which are amounts that are due and payable, from unmatured long-term indebtedness, which represents a general long-term liability. GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, explains that governmental fund liabilities include those that are due and payable in full when incurred. Additionally, the matured portion of long-term indebtedness, to the extent that it is expected to be liquidated with expendable available financial resources, should also be recorded as a fund liability. This applies to the matured portions of formal debt issues as well as to other forms of general long-term indebtedness, such as compensated absences, capital leases, and claims and judgments. The unmatured portion of the long-term indebtedness represents a general long-term liability.

GASB Interpretation No. 6 clarifies financial reporting guidance relative to governmental funds. Because proprietary funds use an accrual basis of accounting for liability recognition, all obligations of the fund should be reflected as fund liabilities.

The following subsections identify the primary obligations typical of most governments.

Accounts Payable
Accounts payable are those liabilities incurred in the normal course of business for which goods or services have been received but payment has not been made as of the end of the fiscal year.

Salaries and Related Benefits Payable
Expenditures should be recorded and reported in the period in which the liability has been incurred. Therefore, unpaid salaries and related benefits that have not yet been paid at the close of the accounting period should be accrued.

Due To/From Other Funds

Each fund is a separate self-balancing set of accounts. Therefore, amounts due to/from other funds generally arise from interfund loans or services used/services provided between funds. For instance, one fund may make an advance to another fund, or one fund may provide services to another without payment at the time the services are provided. Although interfund receivables and liabilities may be classified as current or noncurrent depending on the terms for repayment, all such transactions must be reflected as fund receivables and liabilities. The advancing fund should report nonspendable fund balance for the noncurrent portion of amounts due from another fund.

Compensated Absences

Paragraphs 31 and 119 of GASB Statement 34 provide guidance for the accounting and financial reporting of compensated absences on both a short-term and a long-term basis. Compensated absences include future vacations, sick leave, sabbatical leave, and other leave benefits.

The need for a governmental entity to accrue a liability for vacation leave or other similar compensated absences is based on the following criteria:

- The government's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.

- It is probable that the entity will compensate employees for the benefits through paid time off or some other means (e.g., cash payments at termination or retirement).

Sick leave benefits that have been earned but will only be used as sick leave should not be accrued as compensated absences. Liabilities for compensated absences should be calculated at the end of each fiscal year and adjusted (and recorded) to current salary rates, unless payment will be made at rates other than the current salary rate. This liability also includes the employer's share of Social Security and Medicare taxes as well as other liabilities. A fund liability for the governmental funds may be recorded only when amounts are due and payable. This will most commonly be any amounts related to employees who have separated from the governmental entity as of the end of the reporting period for which the government owes payment for the value of any remaining balance of the compensated absence. For most governmental entities, this limitation means there will typically not be a significant governmental fund liability for compensated absences. Any liability not due and payable is recorded as a government-wide liability. For proprietary funds, all of the liability is a fund liability.

Deferred Compensation Plans, Pension Plans, Other Postemployment Plans, and Termination Benefits

A deferred compensation plan allows employees to defer the receipt of a portion of their salary and, therefore, the associated tax liability on that salary. Authorization for deferred compensation plans is established by the Internal Revenue Service (IRS) and is described in Internal Revenue Code Chapter 457.

Employees of many school districts participate in statewide retirement systems. However, districts may establish deferred compensation plans and other pension plans at their discretion, some of which are locally funded. If the school district has significant administrative or fiduciary responsibility for a deferred compensation plan or a locally funded pension plan—such as management of the plan's investments—a pension and other employee benefits trust fund should be used; however, this is not the case for most school districts. If a governmental entity does not have significant administrative or fiduciary responsibility, the plan should not be reported in the entity's funds.

Many districts provide significant other postemployment benefits (OPEB), such as health care, life insurance, disability, and long-term care. Recent changes in GAAP now require entities to account for and report such plans in a manner similar to the existing reporting requirements for pensions, as described above. Where an OPEB plan is established as a separate legal trust, but the school district has significant administrative or fiduciary responsibility for the plan, it should be accounted for in a pension or other employment benefits trust fund. Where a governmental entity does not have significant administrative or fiduciary responsibility for a legally separate plan, it should not be reported in the entity's funds.

GASB Statement 47, *Accounting for Termination Benefits,* provides accounting and financial reporting guidance for governmental entities that offer benefits such as early retirement incentives or severance to employees who are involuntarily terminated. In general, involuntary termination benefits should be recognized in the period in which the government becomes obligated to provide the benefits, which often is different from the period in which the benefits are actually provided. Voluntary termination benefits, such as early retirement incentives, should be recognized in the period in which the offer is accepted by the employees.

Debt

Governmental entities borrow money on a short-term basis either to meet operating cash needs or in anticipation of long-term borrowing at later dates. School districts usually borrow money on a long-term basis to finance capital acquisitions or construction or infrastructure improvements. Borrowing may also occur for the initial funding of a risk-retention program, the payment of a claim or judgment, or the financing of an accumulated operating deficit.

Short-term debt obligations and long-term debt obligations are defined (based on the initial maturity of the obligation) as follows:

- Short-term obligations are loans, negotiable notes, time-bearing warrants, or leases with a duration of 12 months or less, regardless of whether they extend beyond the fiscal year. Using the current financial resources measurement focus, short-term debt should be reflected in the balance sheet of the governmental fund that must repay the debt. The presentation of the liability on the balance sheet of a governmental fund implies that the debt is current and will require the use of current financial resources. Bond anticipation notes may be classified as long-term debt if the criteria of FASB Statement No. 6, *Classification of Short-Term Obligations Expected to be Refinanced*, are met.

- Long-term obligations are loans, negotiable notes, time-bearing warrants, bonds, or leases with a duration of more than 12 months. Noncurrent obligations that will be repaid from revenues generated by proprietary funds should be recorded in the related proprietary fund, whereas noncurrent obligations to be repaid from governmental funds should be reported only on the government-wide statement of net position.

The following discussion concentrates on long-term debt presentation in different types of funds and the related accounting requirements and disclosures. It is organized as follows:

- recording of long-term liabilities in different types of funds;
- types of debt instruments; and
- extinguishment of debt.

Recording of Long-Term Debt in Different Types of Funds
The accounting for debt-related transactions differs depending on whether the debt is related to proprietary and fiduciary funds or a governmental fund.

Long-Term Liabilities in Proprietary and Fiduciary Funds. GASB Codification Section 1500.102 states:

> Bonds, notes and other long-term liabilities (for example, for capital and operating leases, pensions, claims and judgments, compensated absences, special termination benefits, landfill closure and postclosure care, and similar commitments) directly related to and expected to be repaid from proprietary funds and fiduciary funds should be included in the accounts of such funds. These are specific fund liabilities, even though the full faith and credit of the governmental unit may be pledged as further assurance that the liabilities will be paid. Too, such liabilities may constitute a mortgage or lien on specific fund properties or receivables (GASB 2010).

The proceeds of the debt will thus be recorded as an increase in cash and long-term debt accounts; there will be no effect on operations. If the debt was issued at a discount, the discount should be recorded as a reduction from the face value of the debt and amortized over the term of the debt. All debt issue costs should now be recorded as an expense in the period incurred (again, with the exception of prepaid bond insurance, which is still amortized). This new guidance, which affects proprietary fund and government-wide reporting, is the result of changes required in GASB Statement 65. Currently, the only specific accounting guidance on debt transactions in proprietary funds is in GASB Statement 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities,* discussed later in this chapter. That guidance has also been slightly modified as a result of GASB Statement 65. Therefore, Generally Accepted Accounting Principles for commercial enterprises should be followed for debt transactions in proprietary and fiduciary funds.

Long-Term Liabilities in Governmental Funds. A clear distinction should be made between long-term fund liabilities and general long-term liabilities. Long-term liabilities of proprietary and fiduciary funds should be accounted for in those funds and presented in the fund financial

statements. Long-term liabilities for proprietary funds, but not fiduciary funds, should also be reported in the government-wide statements. However, general long-term liabilities of the entity should be accounted for and reported only in the government-wide statement of net position. The incurrence of long-term debt in the governmental funds should be reported as another financing source, and the repayment of principal during the year should be reported as an expenditure in the governmental funds. This is consistent with the current financial resources measurement focus and the modified accrual basis of accounting.

However, as was discussed for the reporting of governmental fund capital assets, this also presents a common challenge with tracking general long-term liabilities for government-wide reporting. As suggested, one common approach is to maintain internal records, apart from the general ledger, that track the incurrence of general long-term debt, as well as the repayment of general long-term debt principal, throughout the year. This is similar to how entities maintained account groups before the issuance of GASB Statement 34. At the end of the year, there is then a total amount that will be reported as part of the long-term liabilities of the governmental activities and offset by the appropriate equity account, which is most commonly a component of the net investment in capital assets equity account.

Types of Debt Instruments

Debt instruments have different characteristics, terms, and legal authority. A summary description of the types of debt follows:

Bonds

- **General obligation bonds** are issued for the construction or acquisition of major capital assets. The security pledged for the bonds is the general taxing power of the government. General obligation bonds are usually either term bonds, which are due in total on a single date, or serial bonds, which are repaid in periodic installments over the life of the issue.

- **Revenue bonds** are issued to acquire, purchase, construct, or improve major capital facilities. The revenue generated by the facility or the activity supporting the facility is pledged as security for the repayment of the debt.

Other Types of Debt

- **Tax anticipation notes and other revenue anticipation notes** are often issued to pay current operating expenditures prior to the receipt of the revenues. The proceeds from the revenue sources are pledged as security for the notes.

- **Installment financing** may be used either for constructing or acquiring property. The security for the financing is the property being acquired or constructed.

- **Certificates of participation** are a type of installment financing that may also be used either for constructing or acquiring property. Typically, parties other than the borrowing government and the financing institution are also involved in the transaction. Although some arrangements may involve revenue streams as collateral, the security for such financings is commonly the property being acquired or constructed.

- **Leases** are agreements between two parties that convey the use of property for a specified period of time. A lease must be classified as capital if it meets the criteria of FASB Statement 13, *Accounting for Leases*, or as operating if it does not qualify as a capital lease. Capital leases are considered to be debt financing; operating leases are not. Capital leases are in substance an acquisition of an asset. This determination is made using the following criteria:

    - the ownership of the property transfers to the lessee at the end of the lease term;
    - the lease contains a bargain purchase option;
    - the lease term is equal to 75 percent or more of the estimated useful life of the leased property; or
    - at the inception of the lease, the present value of the minimum lease payments is equal to 90 percent or more of the fair value of the leased property.

  When a capital lease satisfies one of the criteria above, an asset and a liability should be recorded. If the lease obligation is incurred by a governmental fund, the asset and the liability should be reported in the government-wide statement of net position. The initial value of the asset should be recorded as the lesser of the fair value of the leased property or the present value of the net minimum lease payments.

  Generally Accepted Accounting Principles require governmental entities to disclose a range of information related to both capital and operating leases in the annual financial statements. The GASB Codification should be consulted for detailed disclosure requirements.

Extinguishment of Debt
GASB has established a range of accounting and reporting requirements for the extinguishment of debt. These requirements are presented primarily in GASB Codification Section D20 and GASB Statement 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, with some slight modifications (discussed earlier) from GASB Statement 65.

The extinguishment of debt is the reacquisition or calling of the debt or the removal of the debt prior to or at the maturity of the debt. When debt is extinguished, the entity either has no further legal responsibilities under the original debt agreement or continues to be legally responsible for the debt, but the extinguishment is considered an in-substance defeasance (retirement). GASB Codification Section D20 concludes that debt is considered to be extinguished when one of the following criteria is met:

- The debtor pays the creditor and is relieved of all obligations with respect to the debt.

- The debtor is legally released as the primary obligor under the debt (either judicially or by the creditor), and it is probable that the debtor will not be required to make future payments with respect to the debt.

- The debtor irrevocably places cash or other assets with an escrow agent in a trust to be used solely for satisfying scheduled payments of both interest and principal of the defeased debt,

and the possibility that the debtor will be required to make future payments on that debt is remote. In this circumstance, usually referred to as "in-substance defeasance," debt is extinguished even though the debtor is not legally released as the primary obligor under the debt obligation.

The most common method of debt extinguishment is advance refunding. It should be noted that if the advance refunding is a crossover refunding, which also involves the use of an escrow agent, both the old and new debt remain on the entity's books until the official crossover date. This type of refunding is not as common as a traditional advance refunding, but it is possible for the refinancing to be structured in that manner.

Advance Refunding. In an advance-refunding transaction, new debt is issued to provide funds to pay principal and interest on old, outstanding debt as it becomes due or at an earlier call date. Advance refunding occurs before the maturity or call date of the old debt, and the proceeds of the new debt are invested until the maturity or call date. Debt may be advance refunded for a variety of reasons, including to

- take advantage of lower interest rates;
- extend maturity dates;
- revise payment schedules; or
- remove or modify restrictions contained in the old debt agreements.

Some advance refundings are intended to achieve short-term budgetary savings by extending debt service requirements further into the future. In these cases, total debt service requirements over the life of the new debt may be more or less than the total service requirements over the life of the existing debt. Advance refundings undertaken for other reasons, such as to remove undesirable covenants of the old debt, may also result in higher or lower total debt service requirements. It may be necessary in an advance refunding to issue new debt in an amount greater than the old debt. In these cases, savings may still result if the total new debt service requirements (interest and principal payment) are less than the old debt service requirements. Most advance refundings result in defeasance of debt.

Debt Defeasance. Defeasance of debt can be either legal or "in substance." A legal defeasance occurs when debt is legally satisfied on the basis of certain provisions in the debt instrument even though the debt is not actually paid. An in-substance defeasance occurs when debt is considered defeased for accounting and financial reporting purposes, as discussed below, even though a legal defeasance has not occurred. When debt is defeased, it is no longer reported as a liability on the face of the balance sheet; only the new debt, if any, is presented in the financial statements.

Debt is considered defeased in substance for accounting and financial reporting purposes if the school district irrevocably places cash or other assets with an escrow agent in a trust to be used solely for satisfying scheduled payments of both interest and principal of the defeased debt and when the possibility that the debtor will be required to make future payments on that debt is considered remote. The trust that is created should be restricted to monetary assets that are essentially risk-free as to the amount, timing, and collection of interest and principal.

Certain disclosures are required on defeasance of debt. GASB Codification Section D20.111 requires that a general description of the transaction be provided in the notes to the financial statements in the year of refunding and that the disclosure should include, at a minimum, the following:

- the difference between the cash flows required to service the old debt and the cash flows required to service the new debt and complete the refunding; and

- the economic gain or loss resulting from the transaction.

Fund Balance/Net Position

Fund Financial Statements

Within governmental funds, equity is reported as fund balance; proprietary and fiduciary fund equity is reported as net position. Fund balance and net position are the difference between fund assets plus deferred outflows of resources and liabilities plus deferred inflows of resources reflected on the balance sheet or statement of net position.

Because of the current financial resources measurement focus of governmental funds, fund balance has historically been considered a measure of available expendable financial resources. This is a particularly important measure in the general fund because it reflects the primary functions of the government and includes both state aid and local tax revenues. However, GASB recently issued Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which requires fund balance for governmental funds to be reported in classifications that clarify the constraints on how resources can be spent (as well as the sources of those constraints). This is a significant departure from the decades-long approach of classifying fund balance more from an "available for appropriation" perspective.

The well-known classifications of reserved and unreserved fund balance (with subcomponents of designated and undesignated amounts) are being replaced with five separate components of fund balance, as follows:

- nonspendable fund balance;
- restricted fund balance;
- committed fund balance;
- assigned fund balance; and
- unassigned fund balance.

Nonspendable Fund Balance
Nonspendable fund balance represents the amount of fund balance within a governmental fund that cannot be spent either because

- it is not in spendable form (most commonly evidenced by inventory, prepaid assets, and long-term portions of receivables); or

- it is legally or contractually required to remain intact (most commonly evidenced by the nonexpendable principal in a permanent fund).

Restricted Fund Balance
Restricted fund balance should be reported to reflect legally enforceable constraints that have been placed on resources within total fund balance. As directly stated in GASB Statement 54, the most common examples of such constraints would be those that are

- externally imposed by creditors (e.g., debt covenants), grantors, contributors, or laws or regulations of other governments; or

- imposed by law through constitutional provisions or enabling legislation.

Restricted fund balance primarily represents those resources within fund balance for which constraints exist that cannot be changed or redirected by management. Portions of fund balance that were previously reported as reserved fund balance are primarily evidenced by the total of the new classifications of nonspendable fund balance and restricted fund balance, but that should not be considered an absolute parallel.

Committed Fund Balance
Committed fund balance represents *formal* constraints that have been placed on resources within fund balance through formal action of the government's highest decisionmaking authority. For school districts, the highest decisionmaking authority is typically the governing board. The creation of this type of constraint is evidenced by formal governing board actions (e.g., legislation, resolution, or ordinance) that can only be changed by an equivalent action. Also, any formal action by the governing board must have been taken by the end of the reporting period (i.e., such actions cannot be enacted retroactively), although the exact amount subject to constraints can be determined after the end of the reporting period and up until the time that the financial statements are issued.

Assigned Fund Balance
Assigned fund balance represents *intentional* constraints placed on resources within fund balance either by the governing board or its appointees. The creation of these constraints does not require formal action, although formal action to enact is not prohibited. Regardless of the action that gives rise to a classification of assigned fund balance, formal action is not required to reverse that classification. For example, appropriating a portion of fund balance as a potential resource for the next year's budget might be initiated by formal action (e.g., passage of the budget ordinance), but no action is required if that portion of fund balance is not actually used during the next fiscal year. Therefore, the amount of fund balance identified as a potential resource for next year's budget would be reported as assigned fund balance at the end of the reporting period (limited to an amount no greater than the projected excess of expected expenditures over expected

revenues). Again, an assignment does not require any formal action to initiate and will most commonly represent management's intent of use for resources included within fund balance. Assignments may not create any deficit in unassigned fund balance.

Assigned fund balance is also the "default" fund balance classification for all governmental funds *except the general fund* after nonspendable, restricted, and committed fund balance amounts have been identified. The definitions of the special revenue, capital projects, debt service, and permanent funds dictate that the resources within those funds represent, at a minimum, assigned portions of fund balance. After the nonspendable, restricted, and committed amounts of fund balance have been identified for these funds, if the remaining amount of fund balance represents a deficit, that amount must be reported as unassigned fund balance. The unassigned fund balance classification, as defined below, is used for special revenue, debt service, capital projects, or permanent funds *only* if the residual amount of fund balance is negative.

Unassigned Fund Balance

Unassigned fund balance is the residual classification for the general fund after the amounts for the nonspendable, restricted, committed, and assigned classifications have been identified. For the general fund, unassigned fund balance may represent either a positive or negative balance. As noted above, this classification may be used for the other governmental fund types only if their respective residual balances are negative.

For financial reporting purposes, the nature of nonspendable, restricted, committed, and assigned components of fund balance (for any governmental fund) may be separately identified on the balance sheet or reported in the aggregate, with details disclosed in the notes to the financial statements.

Within proprietary and fiduciary fund statements of net position, balances are classified into the following three components:

- **Net investment in capital assets** represents the net amount invested in capital assets (original cost, net of accumulated depreciation and net of capital-related debt).

- **Restricted** represents the amount of net position for which limitations have been placed by creditors, grantors, contributors, laws, and regulations. For example, school districts that account for food services within an enterprise fund may have restrictions related to certain proceeds or commodities imposed by the USDA. Internal actions through enabling legislation (which is legally enforceable) and constitutional provisions may also lead to restricted net position.

- **Unrestricted** represents the amount of net position that is not restricted or invested in capital assets, net of related debt.

Government-Wide Financial Statements: Statement of Net Position

The difference between an entity's assets plus deferred outflows of resources and its liabilities plus deferred inflows of resources represents its net position. Net position has the following three components:

- net investment in capital assets;
- restricted net position; and
- unrestricted net position.

Exhibit 5 defines each component.

Exhibit 5. Net position classification

Net investment in capital assets	• All capital assets (including restricted capital assets) net of accumulated depreciation and reduced by outstanding balances of debt relating to the acquisition, construction, or improvement of these assets. • If the entity has capital assets but no related debt, the account should be titled “invested in capital assets” so that readers are not misled.
Restricted net position	• Restricted component of net position on which limitations have been placed by creditors, grantors, contributors, laws, and regulations. • Internal actions may lead to restricted net position in some cases, such as constitutional provisions or enabling legislation that is deemed to be legally enforceable.
Unrestricted net position	• The unrestricted component of net position not included in the “net investment in capital assets” category or the “restricted net position” category. • Internal designations may not be shown in this statement.

Revenues

The accounting and financial reporting of revenues within a governmental entity is determined by the economic substance of the underlying transactions. Generally Accepted Accounting Principles have established criteria for determining the type of transaction based on the classification and characteristics of the transaction.

Within governmental entities, transactions may be classified as either exchange (or exchange-like) transactions or nonexchange transactions. Exchange transactions are those in which the parties involved give up and receive essentially equal values. Within a commercial enterprise, transactions between businesses and their customers meet this definition. Within a proprietary fund of a governmental entity, fees or charges made for goods or services represent exchange transactions.

Although similar to exchange transactions, exchange-like transactions represent situations in which the values exchanged may not be equal or the direct benefits may not be exclusively for the parties involved in the transaction. Examples include permits and professional or regulatory licensing fees.

To clarify and expand on existing guidance on the accounting and financial reporting of nonexchange transactions within governments, GASB issued Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions* and Statement 36, *Recipient Reporting for Certain Shared Nonexchange Revenues—An Amendment of GASB Statement 33.* These standards establish recognition criteria for nonexchange transactions reported on the accrual basis or the modified accrual basis of accounting.

GASB Statement 33 describes the following four classifications of nonexchange transactions:

- **Derived tax revenues** result from assessments imposed on exchange transactions, such as income taxes and sales taxes. Derived tax revenues and the related receivables normally should be recognized when the underlying transaction occurs, with the criteria extended to include the availability criteria for revenues accounted for on the modified accrual basis.

- **Imposed nonexchange revenues** result from assessments imposed on nongovernmental entities other than assessments on exchange transactions. Property taxes, ad valorem taxes on personal property, and fines are common examples. A receivable is usually recognized at the time an enforceable legal claim arises. Imposed nonexchange revenues should be recognized in the first period in which the use of the revenues is permitted or required. For imposed nonexchange revenues accounted for on a modified accrual basis, recognition also depends on the availability of the resources.

- **Government-mandated nonexchange transactions** occur when one level of government provides resources to another level of government and requires the recipient to use the resources for a specific purpose in accordance with the provider's enabling legislation. An example is the federal funds provided for food and nutrition programs in school districts.

- **Voluntary nonexchange transactions** result from legislative or contractual agreements, other than exchanges, entered into willingly by two or more parties. Certain grants and entitlements and most donations are examples of this type of transaction. Frequently, purpose restrictions and eligibility requirements are established by the provider.

For both government-mandated nonexchange transactions and voluntary nonexchange transactions, revenues and receivables should be recognized when all eligibility requirements have been met. For revenues accounted for on a modified accrual basis, the criteria are extended to include the availability of the resources.

GASB Codification Section 1600.106 states that revenues in governmental funds and other governmental fund financial resource increments are recognized using the modified accrual basis of accounting when they are susceptible to accrual, which means they must be both measurable and available. Revenues are *measurable* when the amount of the revenue is subject to reasonable estimation. To be *available*, revenues must be subject to collection within the current period or be collected after the end of the period but in time to pay liabilities outstanding at the end of the current period.

Revenues in proprietary funds are recognized using the accrual basis of accounting (i.e., in the period in which they are earned) and are classified either as operating or nonoperating. Whereas operating revenues are generated by the primary activity of the fund, nonoperating revenues are generated by other means, such as through grants or interest earnings.

Governmental entities account for a variety of revenues that generally may be presented in the financial statements of governmental funds in the following three broad categories:

- **Local and intermediate sources** are those revenues collected from the citizens of the school district's service area and governmental and nongovernmental entities both within and outside the district. Such revenues include property taxes, tuition, and interest income.

- **State revenues** are those revenues received from the state, excluding funds passed through the state from the federal government. Such revenues include state grants and state education foundation funding.

- **Federal revenues** are those revenues received from the federal government or its agencies, either directly or through the state. Such revenues are primarily from federal programs.

Proprietary fund revenues include charges for services, charges to other funds for services rendered, and grant revenues.

Government-Wide Reporting

GASB Statement 34 introduced a number of new reporting concepts for revenues in the government-wide statements. Essentially, revenues must be classified as either program or general revenues on the statement of activities. The following subsections outline the basic reporting criteria established for revenues.

Program Revenues

Program revenues are revenues that are directly attributable to a specific functional activity. Generally Accepted Accounting Principles require these revenues to be presented separately in the appropriate functional areas, providing a calculation of net expense for each activity. This net expense often represents the level of support required from the government's own resources. Program revenues include fees collected from those who benefit from the program, grants, and other contributions required by the resource provider to support a specific activity.

Program revenues are reported on the statement of activities in the following three categories, if applicable:

- **Charges for services** are revenues that arise from charges to customers or applicants who purchase, use, or directly benefit from the goods, services, or privileges provided. Examples are rental fees for school buses or facilities, athletic participant or spectator fees, summer school tuition, or library fines.

- **Program-specific operating grants and contributions** are revenues that occur from mandatory and voluntary nonexchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program. An example is a business grant to provide a scholarship for staff training.

- **Program-specific capital grants and contributions** are grants and contributions that consist of capital assets or resources that are restricted for capital purposes, such as purchasing, constructing, or renovating capital assets associated with a specific program. These revenues should be reported separately from grants and contributions that may be used either for

operating or capital expenses at the judgment of the reporting government. An example is a grant to purchase a school bus.

Program revenues are reported as gross amounts. The statement of activities also reports program expenses net of applicable program revenues. GASB Statement 37 clarified that different captions and additional categories may be used for program revenues.

General Revenues
All revenues are general revenues unless they are required to be reported as program revenues. General revenues are reported in the government-wide statement of activities after program revenues have been subtracted from functional expenses.

Classification of Revenues
Programs are financed from essentially four sources, as follows:

- **Type A—**those who purchase, use, or directly benefit from the goods or services of the program;
- **Type B—**parties outside the reporting government's citizenry;
- **Type C—**taxpayers (regardless of whether they benefit from a particular program); and
- **Type D—**the governmental institution itself (primarily investment income).

Exhibit 6 shows each financing source classified as either program revenue or general revenue.

Exhibit 6. Classification of revenues

Source type	Program revenue	General revenue
Type A	Yes	No
Type B	Yes, if restricted	Yes, if unrestricted
Type C	No	Yes
Type D	No	Yes

Fund Financial Statements—Reporting of Expenditures/Expenses

Expenditures

GASB Codification Section 1600.116 defines expenditures as decreases in net financial resources. In governmental funds, the recognition of expenditures occurs in accordance with the modified accrual basis of accounting. Expenses incurred in proprietary funds are recognized using the accrual basis of accounting. Therefore, significant differences exist between the recognition of expenditures in governmental funds and the recognition of expenses in proprietary funds.

In governmental funds, expenditures are usually recognized in the accounting period in which the goods or services are received and the liability for payment is incurred. However, in instances in which current financial resources are not reduced as a result of the incurrence of a liability, an

expenditure is not recorded. A common example is the liability for compensated absences (e.g., employee sick and vacation pay). Such liabilities result from current services received from employees; however, the payment of the liabilities usually does not occur until a future date. As a result, compensated absences relating to employees whose salaries are accounted for in governmental funds are not recorded as expenditures and liabilities of the fund until the due date for payment of the compensated absences. GASB Interpretation No. 6 clarifies the guidance for recognizing certain liabilities and expenditures in governmental funds, including general long-term indebtedness, such as compensated absences. The matured portion of long-term indebtedness, to the extent it is expected to be liquidated with expendable available financial resources, should be recorded as a fund liability and expenditure. The unmatured portion of the long-term indebtedness represents a general long-term liability to be presented in the government-wide financial statements.

Types of Expenditures and Accounting Treatments
The major types of expenditures are operating, capital, debt service, and intergovernmental charges, described as follows:

- **Operating expenditures** for governmental agencies include a wide range of expenditures. Often, the largest portion relates to payroll and related employee benefits. The modified accrual basis of accounting requires that proper accruals be made for the amount of unpaid salaries and related benefits earned by employees at year-end because these liabilities will be paid early in the next reporting period. (The other types of operating expenditures should be accounted for in the same manner, with the recording of a liability when the goods or services are received and necessary accruals made at year-end.)

- **Capital expenditures** relate to the acquisition of capital assets. Such expenditures may be recorded in the general fund, special revenue funds, or capital projects funds, depending on the source of funding. Purchases of personal property, such as furniture and equipment, are usually recorded as expenditures in the general fund if they are financed from operating budgets (or in the general fund or special revenue funds, if they are financed from grants). Major projects, such as the construction of a school building financed by the proceeds of debt, should be accounted for in a capital projects fund. Costs associated with acquiring capital assets in governmental funds are recorded as capital outlay expenditures when the liability is incurred, usually on receipt of the related asset.

- **Debt service expenditures** represent the payment of principal and interest needed to service debt. Such payments are usually recorded as expenditures in the debt service fund on the due date. The general fund may also be used if a debt service fund is not required. The modified accrual basis of accounting provides that accruals for interest are not usually allowed. When funds have been transferred to the debt service fund in anticipation of making debt service payments shortly after the end of the period (no more than 30 days), it is acceptable to accrue interest and maturing debt in the debt service fund in the year the transfer is made. This option is available only if monies are legally required to be set aside in a debt service fund and if used on a consistent basis.

- **Intergovernmental charges** relate to the transfer of resources from one school district to another, to or from other local governments, or to or from the state. Examples of such charges include contracted instructional services between public schools, other local governments, or state-operated schools and certain transfers of resources associated with state and local funding (e.g., incremental costs associated with wealth redistribution). Such expenditures are accounted for in the general fund using the modified accrual basis of accounting. Payments between school districts and fiscal agents of cooperative services arrangements (e.g., joint instructional or servicing agreements) are also considered intergovernmental charges.

In addition, transfers result in the reduction of a fund's expendable resources, but they are not classified as expenditures. A transfer is a legally authorized movement of monies between funds in which one fund is responsible for the receipt of funds and another fund is responsible for the actual disbursement. In a transfer, the disbursing fund records the transaction as "other financing uses" of resources and not as an operating expenditure, whereas the fund receiving the transfer does not record the receipts as revenue but rather as "other financing sources" of funds.

Expenses

Expenses are defined as the outflow or expiration of assets or the incurrence of liabilities during a period as a result of providing or producing goods, rendering services, or carrying out other activities that constitute the entity's primary operations.

Proprietary funds recognize expenses using the accrual basis of accounting (i.e., when the related liability is incurred) without regard for the timing of the payment. This recognition criterion is consistent with the following guidelines discussed in Financial Accounting Standards Board (FASB) Statement No. 5. Although FASB Statements do not represent authoritative guidance for governments, the discussion is useful in classifying expense transactions within proprietary funds.

- **Associating cause and effect.** Some expenses (such as the cost of goods sold) are recognized on recognition of revenues that result directly and jointly from the same transactions or other events as the expenses.

- **Systematic and rational allocation.** Some expenses (such as depreciation and insurance) are allocated by systematic and rational procedures to the periods during which the related assets are expected to provide benefits.

- **Immediate recognition.** Many expenses (such as selling and administrative salaries) are recognized during the period in which cash is spent or liabilities are incurred for goods or services that are used up either simultaneously with acquisition or soon after.

The major types of governmental expenditures are accounted for differently in proprietary fund expenses. For example:

- **Capital.** Capital asset acquisition in proprietary funds is accounted for using the flow of economic resources method. Amounts disbursed for the acquisition of capital assets are not recorded as an expense. Instead, the appropriate property, plant, or equipment asset account is

debited on the purchase. Depreciation expense is recorded to reflect the allocation of the cost of the assets to operations over the service life of the asset.

- **Debt service.** Principal payments on debt do not represent expenses for proprietary funds, but rather are recorded as a reduction of the obligation. Payments of interest represent expenses to be accounted for on the accrual basis of accounting. Accrual of interest at year-end is usually necessary to reflect the proper amount of expense for the period.

Government-Wide Statements—Reporting of Expenses

Governmental entities are required to present their government-wide financial statements on the accrual basis of accounting. Thus, the statement of activities reflects the expenses of the entity for the reporting period. Entities are required to report all expenses by activities and programs (by function), except certain indirect expenses, as explained below. GASB has defined direct expenses as those that are specifically associated with a service, program, or department and thus are clearly identifiable to a particular function. Direct expenses include both operating and nonoperating expenses, including depreciation and amortization of assets.

Functions such as general administration or data-processing services may include indirect expenses of other functions. Governmental entities are not required to allocate indirect expenses to other functions, but may choose to do so. If indirect expenses are allocated, direct and indirect expenses should be presented in separate columns. A column totaling direct and indirect expenses may be presented, but is not required. Indirect expenses may be allocated to any of the primary government's functions. Although there are no standards for determining an allocation methodology, there should be a reasonable basis for expense allocations.

Depreciation expense should be included in the statement of activities as follows:

- **Capital assets that can be specifically identified with a function.** Depreciation should be included in the direct expenses of that function.

- **"Shared" capital assets.** Depreciation should be prorated as a direct expense of the appropriate functions on some reasonable allocation basis.

- **Capital assets that essentially serve all functions.** Depreciation is not required to be included in the direct expenses of the various functions, but may be reflected as a separate line captioned "unallocated depreciation" in the statement of activities or as part of the general government function. If an entity chooses to use a separate line in the statement of activities to report unallocated depreciation expense, it should clearly indicate in the notes to the financial statements that this line item does not include direct depreciation expenses of the other functions. Because school buildings often serve multiple functions, many school districts report the depreciation as "unallocated depreciation" for these assets.

- **General infrastructure assets.** Depreciation should not be allocated to the various functions, but should be reported as a direct expense of the function that the reporting government normally associates with capital outlays or as a separate line in the statement of activities.

- **Interest expense.** Interest on general long-term liabilities, including interest on capital leases or other vendor financing arrangements, should be considered an indirect expense. Interest on long-term debt should be included in direct expenses only when borrowing is essential to the creation or continuing existence of a program.

The difference between a "shared" capital asset and one that "essentially serves all functions" is the number of functions involved. As the number of functions increases, the ease, practicality, and usefulness of assigning depreciation to those functions decreases. Therefore, the depreciation of assets that serve many, or essentially all, functions is not required to be included in the direct expenses of those functions. A shared capital asset is generally used by only a few functions, and its use can be specifically identified to those functions.

Financial Statements

GASB Statement 34 does not mandate that governments prepare and publish an annual financial report. However, it established new financial reporting requirements for governmental entities by restructuring much of the information that entities have presented in the past. Likewise, GASB Statement 44, *Economic Condition Reporting: The Statistical Section—An Amendment of NCGA Statement 1* (issued in May 2004), provides guidance on the contents of the statistical section of a Comprehensive Annual Financial Report (CAFR). Exhibit 7 is a complete summary of the contents of a CAFR. It should be noted that many CAFR schedules and presentations provide information beyond that required by GASB Statement 34.

Table 5 in the 2003 edition of this handbook compared the contents of the CAFR under the new reporting model per GASB Statement 34 with the contents of the CAFR under the previous model. These comparisons identified key components of each section for an overall comparison of the sections between models. The table was not intended to be an item-by-item comparison of the models. As all districts should now have implemented the provisions of GASB Statement 34, and given that other elements of the CAFR (e.g., the statistical section) have changed since the 2003 edition, the comparative table was not deemed necessary for later updates. However, if a comparison between pre-Statement 34 CAFRs and post-Statement 34 CAFRs is of interest, refer to the 2003 edition.

Exhibit 7. Contents of a Comprehensive Annual Financial Report (CAFR)

INTRODUCTORY Section

Table of Contents
Letter of Transmittal
Government Finance Officers Association (GFOA) Certificate of Achievement
Organization Chart
Principal Officials
Other Material Deemed Appropriate by Management (if applicable)

FINANCIAL Section

Auditor's Report
Management's Discussion & Analysis
Basic Financial Statements
Government-Wide Financial Statements
Statement of Net Position
Statement of Activities
Fund Financial Statements
Governmental Funds
Balance Sheet
Statement of Revenues, Expenditures, and Changes in Fund Balances
Reconciliation to Government-Wide Statements
Proprietary Funds
Statement of Net Position
Statement of Revenues, Expenses, and Changes in Net Position
Reconciliation to Government-Wide Statements (if applicable)
Statement of Cash Flows (using the direct method)
Fiduciary Funds (and similar component units)
Statement of Fiduciary Net Position
Statement of Changes in Fiduciary Net Position
Discretely Presented Component Units
Fund Financial Statements as Required Supplementary Information (RSI) (if component unit does not issue separate financial statements)

Notes to Financial Statements

General Disclosure Requirements (Similar to Notes to Financial Statements per the pre-Statement 34 reporting model as applicable and except as indicated below)

- Cash and investment disclosures as modified by Statement 40
- Capital asset impairment disclosures (if applicable) as modified by Statement 42
- Other postemployment benefit (OPEB) disclosures (if applicable) as modified by Statements 43 and 45
- Components of net position restricted by enabling legislation (if applicable) as modified by Statement 46

Additional Disclosures in Summary of Significant Accounting Policies (Paragraph 115 of Statement 34)

- Definition of operating and nonoperating revenues
- Description of government-wide financial statements, including measurement focus and basis of accounting used
- Government's policy for applying restricted and unrestricted resources
- Description of types of transactions included in program revenues, policies for allocating indirect expenses to functions, and elimination of internal activity in the statement of activities
- Description of modified approach, if applicable
- Policy for asset capitalization and estimation of useful lives
- Identification of fund balance policy (if a formal policy has been adopted by the governing board)

Additional Disclosures in Summary of Significant Accounting Policies (required by Statement 38)

- Activities accounted for in major funds, internal service, and fiduciary fund types columns
- Length of time used to define "available" for revenue recognition
- Required disclosures about capital assets (Paragraphs 116–120 of Statement 34)
    - Separately disclosed for governmental and business-type activities: Beginning and ending balances and acquisitions and dispositions for the year for each major class of capital asset and the related accumulated depreciation reported

Exhibit 7. Contents of a Comprehensive Annual Financial Report (CAFR)—Continued

Required Disclosures on Noncapitalized Assets (Paragraph 118 of Statement 34)

- Historical collections that are not capitalized should be described and reasons for not capitalizing should be provided

Required Disclosures on Long-Term Liabilities (Paragraphs 116–120 of Statement 34)

- Beginning and ending balances and increases and decreases for the year for each major long-term liability
- Additional disclosure is required for portion of items due within 1 year
- Information on governmental funds that have liquidated the long-term operating liabilities in the past

Disclosures for Donor-Restricted Endowments (Paragraph 121 of Statement 34)

Amounts of net appreciation on investment available for authorization for expenditure

- How the amounts are reported in net position
- State law relating to ability to spend net appreciation

Policy for Authorizing and Spending Investment Income

Segment Reporting (Paragraph 122 of Statement 34)

- Provision of condensed financial statements in the notes:
    - Types of goods or services provided by the segment
    - Condensed statement of net position
    - Condensed statement of revenues, expenses, and changes in net position
    - Condensed statement of cash flows

Violations and Actions Taken Regarding Finance-Related Legal or Contractual Provisions (Statement 38)

- Variable-rate debt service on debt and lease obligations
- Short-term debt activity
- Disaggregation of receivable/payable balances
- Interfund balances and transfers

Required Supplementary Information (RSI) Other Than Management's Discussion and Analysis (MD&A)

Budgetary Comparison Schedules *(Paragraphs 130 and 131 of Statement 34; see following pages)*
Original and final appropriated budget

- Actual amounts (budgetary basis)
- Column to report the variance between the final budget and actual amounts is encouraged; a column to report the variance between the original and final budgets is allowed

Combining and Individual Fund Statements
Combining statements are limited to nonmajor funds and are not required under Statement 34

STATISTICAL Section (as modified by Statement 44)

The statistical section is divided into five categories of information, as follows:

- Financial Trends Information
- Revenue Capacity Information
- Debt Capacity Information
- Demographic and Economic Information
- Operating Information

The following statistical tables should be included within each of these information categories in the CAFR unless clearly inapplicable in the circumstances. Also, unless otherwise noted, 10 years of data should be included for every table.

<u>Financial Trends Information</u>

- Information about net position
- Information about changes in net position
- Information about governmental funds

Exhibit 7. Contents of a Comprehensive Annual Financial Report (CAFR)—Continued

Revenue Capacity Information
- Information about revenue base
- Information about revenue rates
- Information about principal revenue payers (current year and previous 9 years)
- Information about property tax levies and collections

Debt Capacity Information
- Information about ratios of outstanding debt
- Information about ratios of general bonded debt
- Information about direct and overlapping debt (current fiscal year)
- Information about debt limitations (current-year calculation for legal debt margin; last 10 fiscal years for all other debt limitation information)
- Information about pledged-revenue coverage

Demographic and Economic Information
- Information about demographic and economic indicators
- Information about principal employers (current year and previous 9 years)

Operating Information
- Information about government employees
- Information about operating indicators
- Information about capital assets

The majority of the changes to financial statements were required by GASB Statement 34. The following subsection describes the major elements of these financial statements and related disclosures in the following areas:

- basic financial statements;
- Management's Discussion and Analysis (MD&A) and other Required Supplementary Information (RSI); and
- component units.

Basic Financial Statements

Under the new financial reporting model, the basic financial statements include the following:

- government-wide financial statements;
- fund financial statements; and
- note disclosures.

The basic financial statements replace the combined general-purpose financial statements (GPFS) required by the former reporting model.

Government-Wide Financial Statements

The purpose of government-wide financial statements is to present the financial position and the operating results of the governmental entity as a whole. The statements are expected to provide users with operational accountability information and to enable them to do the following:

- understand the true financial position of the governmental entity, including capital and financial assets and long-term as well as short-term liabilities;

- determine whether the entity is able to continue to provide current service levels and meet its obligations as they become due; and

- determine the operating results of the entity, including the economic cost and the net cost of services, and assess the economy, efficiency, and effectiveness of operations.

GASB Statement 34 (Paragraphs 130 and 131) allows governments to elect to present budgetary comparison information as part of the basic financial statements rather than as RSI.

The government-wide financial statements are as follows:

- statement of net position; and
- statement of activities.

Statement of Net Position. The statement of net position presents the financial position of the governmental entity and its discretely presented component units. This statement is required to present all financial and capital resources using an economic resources measurement focus and the accrual basis of accounting. GASB Statement 34, as amended by GASB Statement 63, encourages the use of a net position format (which subtracts liabilities plus deferred inflows of resources from assets plus deferred outflows of resources to reflect the net position), rather than the standard balance sheet format (which presents a total for assets plus deferred outflows of resources equal to a total of liabilities plus deferred inflows of resources and net position). However, either presentation is acceptable.

The statement of net position provides a columnar presentation of the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the reporting entity in two categories: governmental activities and business-type activities. Discretely presented component units are reflected in a separate column or columns on the face of the statement. GASB Statement 34 does not alter the requirements for presenting component units as established by GASB Statement 14, *The Financial Reporting Entity* (issued in June 1991), as amended by GASB Statement 61. The statement of net position includes the following:

- focus on governmental and business-type activities;

- reporting on general capital assets and general long-term liabilities; and

- reporting on infrastructure assets.

As mentioned above, GASB Statement 34 requires separate columns for the governmental activities and business-type activities of the reporting entity in the statement of net position. Statement 34 defines governmental activities and business-type activities as follows:

- Governmental activities:
    - activities financed by taxes and intergovernmental revenues and other nonexchange revenues;
    - activities reported in governmental funds and internal service funds as applicable; and
    - internal clearing account funds (e.g., payroll-clearing accounts), which should be reported in the governmental activities column. Funds used to account for tax collections on behalf of other entities should be accounted for in agency (fiduciary) funds and, therefore, excluded from the government-wide financial statements.
- Business-type activities:
    - activities for which fees are charged to external parties for goods or services; and
    - activities reported in enterprise funds and internal service funds (as applicable).

GASB Statement 34 states that although internal service funds are reported as proprietary funds of the reporting entity, the activities accounted for in internal service funds are usually more governmental than business-type in nature. If enterprise funds are the predominant or only participants in an internal service fund, however, the entity should report the internal service fund's residual assets and liabilities within the business-type activities column in the statement of net position.

There are other presentation requirements relative to the statement of net position:

- A total column is required for the primary government. A total column for the entity as a whole, including the discretely presented component units, may be presented but is not required.

- Comparative financial statements are not required, but may be presented at the option of the governmental entity. If comparative financial statements are presented, all columns must be included for both years.

- Fiduciary funds and fiduciary component units are specifically excluded from the government-wide statements because fiduciary resources cannot be used to support the entity's programs or other services.

- GASB Statement 34 encourages the presentation of assets and liabilities based on their relative liquidity. A classified presentation, which distinguishes between current and long-term assets and liabilities, is also acceptable. Definitions of liquidity of assets and liabilities are as follows:
    - Assets
        - determined by how readily the asset is expected to be converted into cash and whether restrictions limit use of resources.

- Liabilities
  - based on maturity, or when cash is expected to be used for liquidation.
  - liabilities whose average maturities are greater than 1 year should be reported in two components: the amount due within 1 year and the amount due in more than 1 year.

Statement of Activities. The operations of the governmental unit should be presented in a net (expense) revenues format in the statement of activities. General revenues, contributions to term and permanent endowments, contributions to permanent fund principal, special and extraordinary items, and transfers should be reported separately after the total net expenses of the entity's functions to arrive at the "change in net position" for the period. The purpose of using this format is twofold:

- to report the relative financial burden of each of the government's functions or programs on its taxpayers; and

- to identify the extent to which each function or program draws from the general revenues of the organization or is self-supporting through fees and intergovernmental aid.

As outlined in the previous discussion, revenues must be categorized according to their purpose as either general or program revenues in the statement of activities.

Fund Financial Statements
Fund financial statements are categorized into three fund types described as follows.

Governmental Fund Financial Statements. Governmental fund financial statements (including financial statements for the general, special revenue, capital projects, debt service, and permanent funds) should be prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Under this measurement focus and basis of accounting, revenues should be recognized in the accounting period in which they become available and measurable, and expenditures should be recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which should be recognized when due.

Proprietary Fund Financial Statements. Proprietary fund financial statements (including financial data for enterprise and internal service funds) should be prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, revenues should be recognized in the accounting period in which they are earned and become measurable, and expenses should be recognized in the period incurred, if measurable.

Fiduciary Fund Financial Statements. Fiduciary fund financial statements (including financial data for fiduciary funds and similar component units) should be prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues should be

recognized in the accounting period in which they are earned and become measurable, and expenses should be recognized in the period incurred, if measurable.

Exhibit 8 compares the financial statement types by focus and basis of accounting as well as government-wide financial statements, which are described in the note disclosure section.

Exhibit 8. Measurement focus and basis of accounting for financial statements

Financial statements	Measurement focus	Basis of accounting
Government-wide financial statements	Economic resources	Accrual
Governmental fund financial statements	Current financial resources	Modified accrual
Proprietary fund financial statements	Economic resources	Accrual
Fiduciary fund financial statements	Economic resources	Accrual

Note Disclosures

GASB Codification Section 2200, *Comprehensive Annual Financial Report,* requires notes to the financial statements that are essential to present fairly the financial position and results of operations (and the cash flows of those types of funds and discretely presented component units that use proprietary fund accounting). The notes to the financial statements should focus on the primary government and its discretely presented component units.

Summary of Significant Accounting Policies (Additional Disclosure Requirements). GASB Statement 34 did not amend the existing general note disclosure requirements, but did require additional disclosures. The additional disclosure requirements directly related to GASB Statement 34, as well as the significant disclosure requirement changes in recently issued pronouncements, include the following:

- a description of the new government-wide financial statements, indicating the elements of the statement of net position and the statement of activities and noting the exclusion of fiduciary funds and component units that are fiduciary in nature as well as the measurement focus and basis of accounting used;

- the policy for eliminating internal activity in the statement of activities;

- the policy for capitalizing assets and for estimating useful lives (for calculating depreciation expense);

- a description of the types of transactions included in program revenues and the policy for allocating indirect expenses to functions in the statement of activities;

- the policy for defining operating and nonoperating revenues of proprietary funds;

- the policy regarding whether the government first applies restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted balances are available. In other words, governments are required to state whether they spend restricted funds only when unrestricted amounts are insufficient or unavailable or whether they spend restricted funds first and use unrestricted resources when the restricted funds are depleted.

Disclosure of this policy is essential to help readers understand the significance of restricted and unrestricted balances relative to total net position; and

- the policy regarding the use of fund balance (if such a policy has been adopted by the governing board).

The requirement for additional significant accounting policy disclosure relates *only* to the government-wide statements and essentially calls for descriptive comments about the elements, purposes, and scope of the statements of net position and activities. The MD&A, in contrast, relates to *both* government-wide and fund financial statements and is oriented more toward the relationship between the two.

The summary of significant accounting policies may also need to be modified slightly to incorporate the disclosure requirements of GASB Statement 46, *Net Assets Restricted by Enabling Legislation—An Amendment of GASB Statement No. 34.* Specifically, the amount of the district's net position at the end of the reporting period deemed to be restricted by enabling legislation should be disclosed.

Required Disclosures for Cash and Investments. As noted earlier, GASB Statement 40, *Deposit and Investment Risk Disclosure—An Amendment of GASB Statement No. 3,* modified and/or enhanced disclosures required by GASB Statement 3, *Deposits With Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements.* The following summarizes the new requirements that are *in addition to* the existing relevant guidance on required disclosures for cash and investments (refer to GASB Statement 40 for detailed or background information regarding these disclosures):

- Investment disclosures should be identified by type of investment.

- Deposit or investment policies should be briefly disclosed. Particular focus should be placed on the types of risks to which a district's portfolio is exposed (i.e., concentration of credit risk, interest rate risk, and foreign currency risk).

It should be noted that certain disclosures required by GASB Statement 3 were eliminated by GASB Statement 40. Specifically, districts are no longer required to identify custodial credit risk for "category 1" or "category 2" deposits and investments, as defined by GASB Statement 3. Also, activity disclosures from *during the year* are no longer required. Likewise, investments are only required to be disclosed at their book value, which typically equals the fair value unless certain valuation exceptions are met.

Required Disclosures for Capital Assets. GASB Statement 34 requires disclosure of each major class of capital assets, including capitalized collections of works of art, historical treasures, and similar assets. Capital assets associated with governmental activities should be reported separately from those associated with business-type activities, capital assets should be depreciated separately from those that are not being depreciated, and the valuation basis should be shown separately from accumulated depreciation. For each class, the following information should be presented, if applicable:

- beginning- and end-of-year balances, with accumulated depreciation by asset class shown separately from the valuation basis;
- capital acquisitions;
- sales or other dispositions; and
- current-period depreciation expense, including the amounts charged to each function in the statement of activities.

The disclosure should also contain a description of the noncapitalized collections of works of art and the reasons for noncapitalization of these assets.

In addition to these capital asset disclosures, GASB Statement 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries,* may be applicable to a district and thus affect disclosure requirements. The following summarizes the potential disclosure requirements:

- a general description of any impairment, including the amount and the financial statement classification of the impairment loss if such information is not apparent on the face of the financial statements;
- the carrying amount of any impaired capital assets, whether deemed to be temporarily impaired or permanently impaired, that are idle as of the end of the reporting period; and
- the amount and financial statement classification of any insurance recoveries that are not apparent in the financial statements.

Required Disclosures for Long-Term Liabilities. The note disclosures should contain information about such long-term liabilities as long-term debt instruments (e.g., bonds, notes, loans, and leases payable), as well as other long-term liabilities, such as compensated absences, claims, and judgments, as follows:

- beginning- and end-of-year balances;
- increases;
- decreases;
- the portions of each item that are due within 1 year of the statement date; and
- information on the governmental funds typically used to liquidate long-term liabilities in prior years. The disclosure should also indicate whether the government has decided to depart from the historical trend and use other funds to liquidate liabilities. The purpose of this disclosure is to give readers additional information about future claims against financial resources to help them assess the balances of specific funds.

Information about net pension liability is required to be disclosed in a separate note using the requirements of GASB Statement 68, *Accounting and Financial Reporting for Pensions—An Amendment to GASB Statement No. 27,* and GASB Statement 27, *Accounting for Pensions by State and Local Governmental Employers*. Likewise, if a district provides an OPEB plan, as defined earlier in this chapter, similar disclosure requirements will apply. Specifically, GASB Statement 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* and GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* provide accounting and reporting requirements for both OPEB plans and employers that participate in OPEB plans. Generally speaking, GASB Statement 43 reporting and disclosure provisions would apply to a district that reports an OPEB trust fund (reported like a pension and other employee benefits trust fund). GASB Statement 45 reporting and disclosure provisions would apply to any districts that provide OPEB to their retirees, whether or not they report an OPEB trust fund.

Currently, it is more common for districts that provide OPEB to continue to do so on a "pay-as-you-go" basis. Therefore, in practice, GASB Statement 45 will have more widespread applicability to districts than GASB Statement 43. It should be noted, however, that any OPEB liability that a district may have will, in almost all situations, affect only the government-wide financial statements. Refer to both GASB statements, however, to assess their applicability and for the specific disclosure requirements.

Disclosures Relating to Donor-Restricted Endowments. The following information relating to donor-restricted endowments is required in the notes:

- amounts of net appreciation on investments available for authorization for expenditure by the governing board and a description on how amounts are reported in net position;
- state laws relating to the ability to spend net appreciation; and
- policy for authorizing and spending investment income.

Segment Disclosures. GASB Codification Section 2200, *Comprehensive Annual Financial Report*, requires presenting segment information for certain individual enterprise funds of the governmental entity, including its blended component units. The term "segment" in Section 2200 refers to an individual enterprise fund of a state or local government. GASB Statement 34 redefines segment, in relation to the needs of users for additional financial information, as an identifiable activity reported as or within an enterprise fund or other stand-alone entity for which one or more revenue bonds or other revenue-backed debt instruments are outstanding.

The definition of a segment requires that a specific identifiable revenue stream be pledged in support of revenue bonds or other revenue-backed debt. It is not a requirement that the debt be backed solely by pledged revenues. The identifiable activity is typically the source of the pledged revenues. In addition, there must be an externally imposed requirement to separately account for the activity's revenues, expenses, gains and losses, assets, and liabilities (GASB Statement 37, Paragraph 17).

Segment disclosures are not required for an activity in which the only outstanding debt is conduit debt for which the entity has no obligation beyond the resources provided by related leases or loans. In addition, segment reporting is not required when an individual fund is a segment, but is reported as a major fund.

GASB Statement 34 requires the following segment disclosures:

- type of goods and services provided by the segment;
- condensed statement of net position;
- condensed statement of revenues, expenses, and changes in net position;
- condensed statement of cash flows;
- statement of activities (encouraged, but not required, for governments that want to present disaggregated information for multiple function enterprise funds in addition to the information above); and
- externally imposed requirements to track each element needed for condensed financial statements.

Additionally, GASB Statement 38, *Certain Financial Statement Note Disclosures*, expanded note disclosures within the summary of significant accounting policies to include (1) the activities accounted for in major funds, internal service funds, and fiduciary fund type columns; and (2) disclosure of the period used to define "available" for revenue recognition purposes. Other disclosure requirements addressed by this statement include (1) violations of finance-related legal or contractual provisions, (2) debt service for debt and lease obligations, (3) short-term debt obligations, (4) disaggregation of receivable and payable balances, and (5) details of interfund balances and transfers.

Management's Discussion and Analysis and Other Required Supplementary Information

Management's Discussion and Analysis (MD&A) is part of the Required Supplementary Information; however, it precedes the financial statements. It should be based on currently known facts as of the date of the audit report and should

- provide a concise, unbiased, and easily readable description of the government's financial activities; and
- help users understand the relationship between the results reported in the governmental activities in the government-wide financial statements and the results reported in the governmental funds financial statements (usually focused on the major funds).

The focus of the MD&A should be on the primary government. However, information on any discretely presented component units may be presented as well. GASB has stated that both the

positive and negative aspects of the government's operations should be presented to inform the reader about whether the government is in better or worse financial condition than in the prior year. The focus should be on significant or material items only.

The MD&A is restricted to the following topics, although there is no limit to the amount of information that may be presented:

- **A discussion about the basic financial statements presented, their relationship to one another, and the significant differences in the information they provide.** The discussion should include the different methods of accounting used in the government-wide and fund financial statements.

- **Condensed financial information comparing the current year and the prior year.** The analysis should include specific economic factors that contributed to the change. Charts and graphs may be used to supplement information in the condensed statements, but should not be used in place of it.

- **Objective analysis of the governmental entity's financial condition as a whole.** Analysis of the government's overall financial position and results of operations should address both governmental and business-type activities separately.

- **An analysis of balances and transactions on a fund basis, addressing the reasons for significant changes in fund balances or fund net position.** The analysis should also include information on whether restrictions, commitments, or other limitations significantly affect the availability of fund resources for future use.

- **A discussion about significant variances between the entity's original budget, final budget, and actual expenditures for the general fund or its equivalent and the impact of these variances on the entity's future liquidity.**

- **A description of activity relating to the government's capital assets and long-term debt during the year.** This discussion should include commitments made for capital expenditures, changes in credit ratings, and debt limitations affecting the financing of planned facilities or services.

- **A discussion about the modified approach used to report some or all of the infrastructure assets, if applicable.**

- **A description of currently known facts, decisions, or conditions expected to have an impact on financial position and results of operation.** The term *currently known* is limited to events or decisions that have occurred, or have been enacted, adopted, agreed on, or contracted as of the date of the auditor's report. The discussion should address expected effects on both governmental and business-type activities.

Information that does not address the requirements above should not be included in the MD&A; instead, it may be reported as supplementary information or included in the letter of transmittal.

The entity should ensure that information contained in the MD&A is not duplicated in the letter of transmittal. Differences between the MD&A and the letter of transmittal are outlined in exhibit 9.

Exhibit 9. Important distinctions between MD&A and letter of transmittal

MD&A	Letter of transmittal
Presented as part of the financial chapter in the Comprehensive Annual Financial Report	Presented as part of the introductory chapter in the Comprehensive Annual Financial Report
Must present only topics required by GASB Statement 34	Not limited to topics described in GASB standards
Provides a summary and analysis of the government's overall financial position and operations	Not applicable
Highly structured and requires information only on currently known facts, conditions, or decisions	Provides an opportunity to discuss future plans

If the reporting entity provides comparative financial statements by presenting basic financial statements and RSI for 2 years, a separate MD&A for each year is not required, but it must address both years presented in the comparative financial statements. The MD&A should include comparative condensed financial information and related analysis for both years.

Component Units

It is essential that governmental financial statements provide an overview of the reporting entity that is based on financial accountability, yet allows users to distinguish between the primary government and its component units. GASB Statement 14, *The Financial Reporting Entity* (issued in June 1991), established criteria for evaluating potential component units and provided guidance on the statement presentation of those entities that met the criteria. GASB Statement 61, *The Financial Reporting Entity: Omnibus—An amendment of GASB Statements No. 14 and No. 34,* is primarily an update of GASB Statement 14 and modifies certain requirements for inclusion of component units in the financial reporting entity. Component units are defined as legally separate organizations for which the elected officials of the primary government are financially accountable or for which the nature and significance of the relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading.

Financial accountability for a potential component unit is determined by either of the following:

- appointment of the voting majority of the potential component unit governing board by the primary government *and either*
  - the ability of the primary government to impose its will on the potential component unit; *or*
  - a relationship of financial benefit or burden between the primary government and the potential component unit.
- whether or not the potential component unit is fiscally dependent upon the primary government *and* there is a potential for the component unit to provide specific financial benefits to, or impose specific burdens on, the primary government.

If a potential component unit does not meet either of the two tests above for financial accountability, it may still be included in the financial statements of the primary government based on the criterion that exclusion would result in a misleading presentation of the financial reporting entity.

In May 2002, GASB issued Statement 39, *Determining Whether Certain Organizations Are Component Units*, which amended Statement 14 to establish the criteria for the inclusion of organizations on this basis. A legally separate, tax-exempt organization should be reported as a component unit if all of the following criteria are met:

- The economic resources of the separate organization are received or held for the benefit of the primary government, its component units, or its constituents.

- The primary government or its component units may access, or are entitled to, a majority of the economic resources of the separate organization.

- The economic resources of an individual organization that the primary government or its component units may access, or are entitled to, are significant to the primary government (GASB Statement 39, Paragraph 5).

This standard continues the requirement for inclusion of organizations based on the "misleading" criterion, but emphasizes that "financial integration" may also be a component of all of the aforementioned criteria. Additional guidance on evidence of financial integration is also provided in GASB Statement 39.

Component units may be

- blended, as though they are part of the primary government; or
- discretely presented.

GASB Statement 34 did not amend the definition of component units or the general reporting requirements. GASB Statement 61 modified the criteria for when blending is required.

Blended Component Units
Even though it is preferable to distinguish between the primary government and its component units, certain component units, despite being legally separate from the reporting entity, are so intertwined with the entity that they are, in effect, the same as the primary government.

Accordingly, GASB has stated that these component units should be reported as part of the primary government. Thus, the component unit's balances and transactions should be reported in a manner similar to the way balances and transactions of the reporting government itself are reported. This method of inclusion is known as blending.

A component unit should be blended under any of the following circumstances:

- The component unit's governing body is substantively the same as the governing body of the primary government *and* (1) there is a financial benefit or burden relationship between the primary government and the component unit; *or* (2) management of the primary government has operational responsibility for the component unit. Operational responsibility is most often evidenced by the primary government if it manages the component unit in basically the same way that it does its own operations.

- The component unit provides services entirely, or almost entirely, to the reporting entity or otherwise exclusively, or almost exclusively, benefits the entity even though it does not provide services directly to it.

- The component unit's total debt outstanding, including leases, is expected to be repaid entirely or almost entirely with resources of the primary government.

Some component units account for their activities in a single fund; others use all or several fund types. If a component unit is blended, the types of funds of the component unit should be blended with those of the primary government by including them in the appropriate combining statements of the primary government. However, because the primary government's general fund is usually the main operating fund and often is a focal point for report users, a general fund should be presented only for the primary government. The general fund of a blended component unit should be reported as a special revenue fund, even though it may not meet the definition of a special revenue fund per GASB Statement 54.

Discretely Presented Component Units

Discrete presentation of component units refers to the method of reporting financial data of component units in a column(s) and row(s) separate from the financial data of the primary government.

When component units are presented in the basic financial statements (i.e., statement of net position and statement of activities), each statement should distinguish between the governmental and business-type activities of the government, and between the total entity and its discretely presented component units, by reporting each in separate columns (and rows, in the statement of activities). Component units that are fiduciary in nature, however, should be included only in the fund financial statements with the entity's fiduciary funds.

GASB Statement 39 (Paragraph 7) provides that a discrete presentation must be used for an organization that meets the requirements as a component unit under its new criteria.

Conclusion

An entity's financial statements are an important element in conveying the current state, financial health, and future viability of the organization. Financial statements, regardless of the industry, report on a number of similar components, including assets, liabilities, and equity (i.e., fund balances or net position). School districts and other governmental agencies are no exception.

GASB is the oversight body responsible for establishing the governmental reporting criteria, including the level of detail, format, and required contents of external financial statements. GASB also provides much guidance in the proper interpretation and implementation of these requirements. Readers are encouraged to refer to this source for further questions on financial reporting issues not covered in this document.

Chapter 6: Account Classification Descriptions

This chapter establishes the hierarchy of the account code structure. This structure gives an entity the ability to accurately and effectively report on its financial activities. The hierarchy for both revenues and expenditures gives school districts the necessary code structure to segregate and group accounts with the greatest amount of flexibility and, therefore, the ability to produce the most useful financial statements.

The basic account structure provides for uniform financial reporting by state education agencies and public schools, including charter schools. Additionally, private schools may use this chart of accounts to report financial information that is comparable to that of the public education sector. The basic structure and codes discussed herein are sufficient to comply with federal reporting requirements and those established by Governmental Accounting Standards Board (GASB) Statement 34 for fund reporting. Local and state needs and requirements may call for additional levels of account details to be added to this basic structure. Occasionally, such requirements may not be directly addressed within this basic sample structure, and editing may be required to conform to unique local or state mandates.

The account code structure includes the following:

- the fund from which monies are being expended;
- the program that is spending the funds;
- the function for which the funds are being spent;
- the object on which the funds are being spent;
- the project for which funds are being spent (used mainly for reporting, e.g., grants);
- the level of instruction associated with the expenditure;
- the operational unit on which the funds are being spent;
- the subject matter on which the funds are being spent; and
- the job class associated with the expenditure.

Although the code structure for the accounting of expenditures may initially appear complex, it has been established to develop sound guidelines for school district account codes and thereby provide for more comparable financial statements among districts.

Fund Classifications

A fund is a separate fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances or changes therein. Current fund classifications are presented below. Each classification is presented by a code number followed by a description.

Governmental Fund Types

1 **General Fund.** This fund is the chief operating fund of the school district. It is used to account for all financial resources of the school district except those accounted for and reported in another fund. A district may have only one general fund.

2 **Special Revenue Funds.** These funds account for the proceeds of specific revenue sources (other than trusts or major capital projects) that are legally restricted or committed to expenditure for specified purposes other than debt service or capital projects. Unless specifically required by Generally Accepted Accounting Principles (GAAP) or other requirements, restricted revenues may also be accounted for in the general fund. One or more ongoing and specific restricted or committed revenues should be the foundation for a special revenue fund.

Some examples of special revenue funds are

- restricted state or federal grants-in-aid;
- expendable trusts that benefit or support the governmental entity; and
- restricted tax levies.

A separate fund may be used for each identified restricted source or one fund may be used, supplemented by the classification project/reporting code.

3 **Capital Projects Funds.** These funds account for financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets (other than those of proprietary funds and trust funds). The most common source of capital projects funding is the sale of bonds or other capital financing instruments. A separate fund may be used for each capital project or one fund may be used, supplemented by the classification project/reporting code.

4 **Debt Service Funds.** These funds account for financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds should be used if legally mandated, as well as for the accumulation of resources for, and the payment of, general long-term debt principal and interest maturing in future years.

5 **Permanent Funds.** These funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the school district's programs.

Proprietary Fund Types

6 **Enterprise Funds.** These funds account for any activity for which a fee is charged to external users for goods or services. Enterprise funds are required to be used to account for any activity whose principal revenue sources meet any of the following criteria:

- debt backed solely by revenues from fees and charges (thus, not debt that is backed by the full faith and credit of the school district);
- legal requirement to recover costs through fees and charges; or
- policy decision of the governing board of management to recover the costs of providing services through fees or charges.

Some examples of the use of enterprise funds are for activities such as certain food service programs, the bookstore operation, the athletic stadium, or the community swimming pool.

7 **Internal Service Funds.** These funds account for any activity within the school district that provides goods or services to other funds, school district departments, component units, or other governments on a cost-reimbursement basis. The use of an internal service fund is appropriate only for activities in which the school district is the predominant participant in the activity. Otherwise, the activity should be reported as an enterprise fund. Examples of the use of internal service funds are for activities such as central warehousing and purchasing, central data processing, and central printing and duplicating.

Do not use internal service fund revenues or expenditures in federal surveys—unless the revenues are generated from outside the school district or education entity.

Fiduciary Fund Types

8 **Trust Funds.** These funds account for assets held by a school district in a trustee capacity for others—e.g., members and beneficiaries of pension plans and other postemployment benefit (OPEB) plans, external investment pools, or private-purpose trust arrangements—and that therefore cannot be used to support the school district's own programs. Trust funds are generally accounted for using the economic resources measurement focus and the accrual basis of accounting (except for the recognition of certain liabilities of defined benefit pension plans and certain postemployment health care plans; refer to GASB Statements 26, 27, 43, 45, 67, and 68 for guidance on the recognition of these liabilities). Trust funds include pension trust funds (including OPEB plans), investment trust funds, and private-purpose trust funds (as described below).

- **Pension Trust Funds.** These funds account for resources that are required to be held in trust for members and beneficiaries of defined benefit pension plans, defined contribution plans, OPEB plans, or other benefit plans. Typically, these funds account

for local pension and other employee benefit funds that are provided by a school district in lieu of or in addition to any state retirement system.

- **Investment Trust Funds.** These funds account for the external portion (i.e., the portion that does not belong to the school district) of investment pools operated by the school district.

- **Private-Purpose Trust Funds.** These funds account for other trust arrangements under which the principal and income benefit individuals, private organizations, or other governments.

9 **Agency Funds.** These funds account for funds that are held in a custodial capacity by a school district for individuals, private organizations, or other governments. Agency funds may include those used to account for taxes collected for another government or, in some states, for student activities.

Program

A program is a plan of activities and procedures designed to accomplish a predetermined objective or set of objectives. Nine broad program areas are identified in this guide that are intended to capture similar instructional services delivered to public (including charter) schools: regular education, special education, vocational education, other instructional (prekindergarten through grade 12), nonpublic school, adult/continuing education, community/junior college education, community services, and cocurricular/extracurricular activities. The program classification provides the school district with a framework to classify instructional and other expenditures by program to determine cost. For purposes of designating program codes for noninstructional expenditures, it may be necessary to create a designation for those costs that cannot be attributed to a specific program. Many state departments of education use a function/object matrix only, for reporting financial information from the school district to the state. Under this system, the function is subclassified to gather instructional program information. This results in only direct instructional costs being classified to the instruction function. Those support costs that provide support to specific instructional programs are classified as a general or other support function. Each classification is presented by a code number followed by a description.

100 **Regular Elementary/Secondary Education Programs.** Activities that provide students in prekindergarten (prekindergarten refers to all programs and ages preceding kindergarten, including infant and early childhood programs) through grade 12 with learning experiences to prepare them for further education or training and for responsibilities as citizens, family members, and workers. Regular programs should be distinguished from special education programs that focus on adapting curriculum or instruction to accommodate a specific disability; from vocational/technical programs that focus on career skills; and from alternative education programs that focus on the educational needs of students at risk of failing or dropping out of school because of academic, behavioral, or situational factors.

200 **Special Programs.** Special programs include activities for elementary and secondary students (prekindergarten through grade 12) with special needs. These services are related to mental retardation, orthopedic impairment, emotional disturbance, developmental delay, specific learning disabilities, multiple disabilities, hearing impairment, other health impairments, visual impairments (including blindness), autism, deaf-blindness, traumatic brain injury, and speech or language impairments.

300 **Vocational and Technical Programs.** Activities delivered through traditional comprehensive and vocational-technical high schools or recognized charter schools that prepare students to meet challenging academic standards as well as industry skill standards, while preparing them for broad-based careers and further education beyond high school. Vocational and technical programs may include agriculture and natural resources, architecture and construction, arts and communication technology, business and administration, education and training, finance, public administration, health science, hospitality and tourism, human services, information technology, law and public safety,

manufacturing, retail/wholesale sales and service, scientific research and engineering, and transportation.

400 **Other Instructional Programs—Elementary/Secondary.** Activities that provide students in prekindergarten through grade 12 with learning experiences not included in program codes 100–300 or 500–900. Examples of such programs follow:

- **Bilingual—English for Speakers of Other Languages (ESOL).** Activities for students from homes where English is not the primary language spoken.

- **Alternative (and At Risk) Education Programs.** Activities for students assigned to alternative campuses, centers, or classrooms designed to improve behavior and/or provide an enhanced learning experience. Typically, alternative education programs are designed to meet the needs of students that cannot be addressed in a traditional classroom setting.

- **Gifted and Talented.** Activities for students with gifted and talented abilities, which consist of behaviors that reflect an interaction among three basic clusters of human traits: above-average general and/or specific abilities, high levels of task commitment, and high levels of creativity. Individuals capable of developing gifted behavior are those possessing or capable of developing this composite set of traits and applying them to any potentially valuable area of human performance. Persons who manifest or are capable of developing an interaction among the three clusters require a wide variety of educational opportunities and services that are not ordinarily provided through regular instructional programs (Renzulli and Reis 1997).

500 **Nonpublic School Programs.** Activities for students attending a school established by an agency other than the state, a subdivision of the state, or the federal government, which usually is supported primarily by other than public funds. The services consist of such activities as those involved in providing instructional services, attendance and social work services, health services, and transportation services for nonpublic school students.

600 **Adult/Continuing Education Programs.** Activities that develop knowledge and skills to meet immediate and long-range educational objectives of adults who, having completed or interrupted formal schooling, have accepted adult roles and responsibilities. Programs include activities to foster the development of fundamental tools of learning; prepare students for a postsecondary career; prepare students for postsecondary education programs; upgrade occupational competence; prepare students for a new or different career; develop skills and appreciation for special interests; or enrich the aesthetic qualities of life. Adult basic education programs are included in this category.

700 **Community/Junior College Education Programs.** Activities for students attending an institution of higher education that usually offers the first 2 years of college instruction. If the school district is responsible for providing these programs, all costs of the programs should be coded here.

800 **Community Services Programs.** Activities that are not directly related to the provision of educational services in a school district. These include such services as community recreation programs, civic activities, public libraries, programs of custody and care of children, and community welfare activities provided by the district for the community as a whole or for some segment of the community.

- **Community Recreation.** Activities concerned with providing recreation for the community as a whole or for some segment of the community. Included are such staff activities as organizing and supervising playgrounds, swimming pools, and similar programs.

- **Civic Services.** Activities concerned with providing services for civic affairs or to civic affairs organizations. This program area includes services to parent-teacher association meetings, public forums, lectures, and civil defense planning.

- **Public Library Services.** Activities pertaining to the operation of public libraries by a school district or the provision of library services to the general public through the school library. Included are such activities as budgeting, planning, and augmenting the library's collection in relation to the community and informing the community of public library resources and services.

- **Custody and Child Care Services.** Activities pertaining to the provision of programs for the custodial care of children in residential day schools or child care centers that are not part of, or directly related to, the instructional program and where the attendance of the children is not included in the attendance figures for the district.

- **Welfare Activities.** Activities addressing the personal needs of individuals who have been designated as needy by an appropriate governmental entity. These needs include salaries paid to students for work performed (whether for the school district or for an outside concern) and funds for clothing, food, or other personal needs.

- **Other Community Services.** Activities provided to the community that cannot be classified under the other program 800 codes.

900 **Cocurricular and Extracurricular Activities.** Activities that add to a student's educational experience but are not related to educational activities. These activities typically include events and activities that take place outside the traditional classroom. Some examples of such activities are student government, athletics, band, choir, clubs, and honors societies.

Balance Sheet/Statement of Net Position

Balance sheet accounts and statement of net position accounts are used to track financial transactions for each fund. Such financial statements only report assets, deferred outflows of resources, liabilities, deferred inflows of resources, and equity accounts and are considered "snapshots" of how these accounts stand as of a certain point in time. Each classification is presented by a code number followed by a description.

Assets

101 **Cash in Bank.** All funds on deposit with a bank or savings and loan institution, normally in non-interest-bearing accounts. Interest-bearing accounts, however, that do not meet the definition of an investment (e.g., demand deposits that are interest-bearing) should be recorded herein as well.

102 **Cash on Hand.** Currency, coins, checks, postal and express money orders, and bankers' drafts on hand.

103 **Petty Cash.** A sum of money set aside to pay small obligations for which the issuance of a formal voucher and check would be too expensive and time consuming.

104 **Change Cash.** A sum of money set aside to provide change.

105 **Cash With Fiscal Agents.** Deposits with fiscal agents, such as commercial banks, for paying matured bonds and interest.

111 **Investments.** Securities and real estate held for producing income in the form of interest, dividends, rentals, or lease payments. Investments should be presented at fair value as of the reporting date. Gains from changes in the fair value of investments are recorded using revenue account 1530. Losses from changes in the fair value of investments are recorded using expenditure object code 930. Alternatively, gains and losses may be netted and recorded in revenue account 1530. The account does not include capital assets used in school district operations. Separate accounts may be maintained for each category of investments.

112 **Unamortized Premiums on Investments.** The excess of the amount paid for securities over the face value that has not yet been amortized. Use of this account is restricted to short-term money market investments.

113 **Unamortized Discounts on Investments (Credit).** The excess of the face value of securities over the amount paid for them that has not yet been written off. Use of this account is restricted to short-term investments.

114 **Interest Receivable on Investments.** The amount of interest receivable on investments, excluding interest purchased. Interest purchased should be shown in a separate account.

115 **Accrued Interest on Investments Purchased.** Interest accrued on investments between the last interest payment date and the date of purchase. The account is carried as an asset until the first interest payment date after the date of purchase.

121 **Taxes Receivable.** The uncollected portion of taxes that a school district or government unit has levied and that has become due, including any interest or penalties that may be accrued. Separate accounts may be maintained on the basis of tax roll year, current and delinquent taxes, or both.

122 **Allowance for Uncollectible Taxes (Credit).** The portion of taxes receivable estimated not to be collected. The account is shown on the balance sheet as a deduction from the taxes receivable account to arrive at the net taxes receivable. Separate accounts may be maintained on the basis of tax roll year, delinquent taxes, or both.

131 **Interfund Loans Receivable.** An asset account used to record a loan by one fund to another fund in the same governmental unit. It is recommended that separate accounts be maintained for each interfund receivable loan.

132 **Interfund Accounts Receivable.** An asset account used to indicate amounts owed to a particular fund by another fund in the same school district for goods sold or services rendered. It is recommended that separate accounts be maintained for each interfund receivable.

141 **Intergovernmental Accounts Receivable.** Amounts due to the reporting governmental unit from another governmental unit. These amounts may represent grants-in-aid, shared taxes, taxes collected for the reporting unit by another unit, loans, and charges for services rendered by the reporting unit for another government. It is recommended that separate accounts be maintained for each interagency receivable.

151 **Loans Receivable.** Amounts that have been loaned to persons or organizations, including notes taken as security for such loans, where permitted by statutory authority.

152 **Allowance for Uncollectible Loans (Credit).** The portion of loans receivable estimated not to be collected. The account is shown on the balance sheet as a deduction from the other loans receivable account.

153 **Other Accounts Receivable.** Amounts due on open account from private persons, firms, or corporations for goods and services furnished by a school district (but not including amounts due from other funds or from other governmental units).

154 **Allowance for Uncollectible Accounts Receivable (Credit).** A provision for that portion of accounts receivable that is estimated will not be collected. The account is shown on the balance sheet as a deduction from the other accounts receivable account.

171 **Inventories for Consumption.** The cost of supplies and equipment on hand not yet distributed to requisitioning units.

172 **Inventories for Resale.** The value of goods purchased and held by a school district for resale rather than for use in its own operations. Such goods could include unique manufactured inventories, such as student-built homes or equipment.

181 **Prepaid Items.** Expenditures/expenses paid for benefits not yet received. Prepaid expenses differ from deferred charges in that they are spread over a shorter period of time and are regularly recurring costs of operation. Examples of prepaid expenses are prepaid rent, prepaid interest, and unexpired insurance premiums.

191 **Deposits.** Funds deposited by the school district as a prerequisite to receiving services, goods, or both.

193 **Bond Insurance Costs.** Bond insurance costs that are a form of prepayment to be amortized.

194 **Premium and Discount on Issuance of Bonds.** Represents amounts to be amortized as debt premium/discount in connection with the issuance of bonds.

199 **Other Current Assets.** Current assets not provided for elsewhere.

200 **Capital Assets.** Those assets that the school district intends to hold or continue to use over a long period of time. Specifically, capital assets include land, improvements to land, easements, buildings and building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives that extend beyond a single reporting period. This account is used only in proprietary funds, fiduciary funds, and the government-wide financial statements.

211 **Land and Land Improvements.** A capital asset account that reflects the acquisition value of land owned by a school district. If land is purchased, this account includes the purchase price and costs such as legal fees, filling and excavation costs, and other associated improvement costs incurred to put the land in condition for its intended use. If land is acquired by gift, the account reflects its fair value at the time of acquisition. Permanent improvements to land, such as grading and fill, should also be accounted for in this account.

Land and land improvements are considered nonexhaustible assets owing to their significantly long expected useful life. Nonexhaustible assets are not to be depreciated. Therefore, assets classified by asset code 211 should result in no depreciation expense.

221 **Site Improvements.** A capital asset account that reflects the value of nonpermanent improvements to building sites, other than buildings, that add value to land. Examples of such improvements are fences, retaining walls, sidewalks, pavements, gutters, tunnels, and

bridges. If the improvements are purchased or constructed, this account contains the purchase or contract price. If improvements are obtained by gift, it reflects the fair value at the time of acquisition.

Site improvements are improvements that have a limited useful life. Because these improvements decrease in their value/usefulness over time, it is appropriate to depreciate these assets. Therefore, all capitalized site improvements should be depreciated over their expected useful life.

222 **Accumulated Depreciation on Site Improvements.** Accumulated amounts for the depreciation of land improvements.

231 **Buildings and Building Improvements.** A capital asset account that reflects the acquisition value of permanent structures used to house persons and property owned by the school district. If buildings are purchased or constructed, this account includes the purchase or contract price of all permanent buildings and the fixtures attached to and forming a permanent part of such buildings. This account includes all building improvements, including upgrades made to building wiring for technology. If buildings are acquired by gift, the account reflects their fair value at the time of acquisition.

232 **Accumulated Depreciation on Buildings and Building Improvements** Accumulated amounts for the depreciation of buildings and building improvements.

241 **Machinery and Equipment.** Tangible property of a more or less permanent nature, other than land, buildings, or improvements thereto, that is useful in carrying on operations. Examples are machinery, tools, trucks, cars, buses, computers, purchased software, furniture, and furnishings. Appendix E provides criteria to distinguish whether a purchase is a supply or a piece of machinery or equipment.

242 **Accumulated Depreciation on Machinery and Equipment** Accumulated amounts for the depreciation of machinery and equipment.

251 **Works of Art and Historical Treasures.** Individual items or collections of items that are of artistic or cultural importance.

252 **Accumulated Depreciation on Works of Art and Historical Collections** Accumulated amounts for the depreciation (as applicable) of works of art and historical treasures.

261 **Infrastructure.** A capital asset, network, or subsystem that has a useful life that is significantly longer than those of other capital assets. These assets may include water/sewer systems, roads, bridges, tunnels, and other similar assets.

262 **Accumulated Depreciation on Infrastructure** Accumulated amounts for the depreciation of infrastructure assets.

271 **Construction in Progress.** The cost of construction work undertaken but not yet completed.

281 **Intangible Assets**. An intangible asset is a capital asset that lacks physical substance, is nonfinancial in nature, and has an initial useful life of more than 1 year. Intangible assets may be purchased or licensed, acquired through nonexchange transactions, or internally generated. Examples include easements, contractual rights, patents, trademarks, and computer software.

282 **Accumulated Amortization of Intangible Assets**. Accumulated amounts for the amortization of intangible assets.

Deferred Outflows of Resources

300 **Deferred Outflows of Resources.** A consumption of net assets by the government that is applicable to a future reporting period.

Liabilities

401 **Interfund Loans Payable.** A liability account used to record a debt owed by one fund to another fund in the same governmental unit. It is recommended that separate accounts be maintained for each interfund loan.

402 **Interfund Accounts Payable.** A liability account used to indicate amounts owed by a particular fund for services rendered. It is recommended that separate accounts be maintained for each interfund payable.

411 **Intergovernmental Accounts Payable.** Amounts owed by the reporting school district to another governmental unit. It is recommended that separate accounts be maintained for each intergovernmental payable.

421 **Accounts Payable.** Liabilities on open account owed to private persons, firms, or corporations for goods and services received by a school district (but not including amounts due to other funds of the same school district or to other governmental units).

422 **Judgments Payable.** Amounts due to be paid by a school district as the result of court decisions, including condemnation awards paid for private property taken for public use.

423 **Warrants Payable.** Amounts due to designated payees in the form of a written order drawn by the school district directing the school district treasurer to pay a specific amount.

431 **Contracts Payable.** Amounts due on contracts for assets, goods, and services received by a school district.

432 **Construction Contracts Payable—Retainage.** Liabilities on account of construction contracts for that portion of the work that has been completed but on which part the liability

has not been paid pending final inspection, the lapse of a specified time period, or both. The unpaid amount is usually a stated percentage of the contract price.

433 **Construction Contracts Payable.** Amounts due by a school district on contracts for constructing buildings and other structures and other improvements.

441 **Matured Bonds Payable.** Bonds that have reached or passed their maturity date but that remain unpaid.

442 **Bonds Payable—Current.** Bonds that have not reached or passed their maturity date but are due within 1 year or less. This account is used only in proprietary or fiduciary funds, as well as in the government-wide financial statements.

443 **Unamortized Premiums on Issuance of Bonds.** An account that represents that portion of the excess of bond proceeds over par value and that remains to be amortized over the remaining life of such bonds. This account is used only in proprietary or fiduciary funds, as well as in the government-wide financial statements.

451 **Loans Payable.** Short-term obligations representing amounts borrowed for short periods of time, usually evidenced by notes payable or warrants payable.

452 **Lease Obligations—Current.** Capital lease obligations that are due within 1 year.

455 **Interest Payable.** Interest due within 1 year.

461 **Accrued Salaries and Benefits.** Salary and fringe benefit costs incurred during the current accounting period that are not payable until a subsequent accounting period.

471 **Payroll Deductions and Withholdings.** Amounts deducted from employees' salaries for withholding taxes and other purposes. District-paid benefits amounts payable are also included. A separate liability account may be used for each type of benefit.

472 **Compensated Absences—Current.** Compensated absences that will be paid within 1 year.

473 **Accrued Annual Requirement Contribution Liability.** A liability arising from payments not made to pension funds. This amount represents any difference between the actuarially determined annual required contribution and actual payments made to the pension fund.

481 **Advances from Grantors.** A liability account that represents resources received from grantors before eligibility requirements are met.

491 **Deposits Payable.** Liability for deposits received as a prerequisite to providing or receiving services, goods, or both.

499 **Other Current Liabilities.** Other current liabilities not provided for elsewhere.

500 **Long-Term Liabilities.** Obligations with a maturity of more than 1 year. These accounts should be used only with proprietary and fiduciary funds, as well as at the entity-wide level of reporting.

511 **Bonds Payable.** Bonds (general obligation, asset-backed, or revenue-backed) that have not reached or passed their maturity date and that are not due within 1 year.

512 **Accreted Interest.** An account that represents interest that is accrued on deep discount bonds. This account should be used by school districts that issue capital appreciation bonds. Such bonds are usually issued at a deep discount from the face value, and no interest payment is made until maturity. Under full accrual accounting, the district is required to accrete the interest on the bonds over the life of the bonds. Accretion is the process of systematically increasing the carrying amount of the bond to its estimated value at the maturity date of the bond. To calculate accreted interest, the district should impute the effective interest rate, using the present value, the face value (or the future value), and the period of the bond, and multiply the effective interest rate by the book value of the debt at the end of the period. Accreted interest is usually recorded as an addition to the outstanding debt liability.

513 **Unamortized Gains/Losses on Debt Refundings.** An account that represents the difference between the reacquisition price and the net carrying amount of old debt when a current or advance refunding of debt occurs. This account should be used only when defeasance of debt occurs for proprietary funds and entity-wide statements. The unamortized loss amount should be reported as a deferred outflow of resources and amortized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. The unamortized gain amount should be reported as a deferred inflow of resources and amortized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter.

521 **Loans Payable.** An unconditional written promise signed by the maker to pay a certain sum of money 1 year or more after the issuance date.

531 **Capital Lease Obligations.** Amounts remaining to be paid on capital lease agreements.

551 **Compensated Absences.** Amounts remaining beyond the period of 1 year to be paid on compensated absences balances.

553 **Special Termination Benefits.** These are benefits offered for a short period of time to employees in connection with their termination of employment. Special termination benefits are often used as an inducement for early retirement or to address budgetary problems.

561 **Arbitrage Rebate Liability.** Liabilities arising from arbitrage rebates to the Internal Revenue Service (IRS) from bond financing.

590 **Other Long-Term Liabilities.** Other long-term liabilities not provided for elsewhere. This account represents amounts due after more than 1 year from the balance sheet date for advances from other funds and certain miscellaneous liabilities, including workers' compensation, self-funded insurance, special termination benefits, and legal claims and judgments.

Deferred Inflows of Resources

600 **Deferred Inflows of Resources**. An acquisition of net assets by the government that is applicable to a future reporting period. A deferred inflow of resources should be recognized when resources are received or recognized as a receivable before (a) the period for which property taxes are levied or (b) the period when the resources are required to be used. When an asset is recorded in governmental fund financial statements but the revenue is not available, the government should report a deferred inflow of resources until such time as the revenue becomes available.

Fund Balances/Fund Net Position

710 **Nonspendable Fund Balance** – The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This would include items not expected to be converted to cash, including inventories and prepaid amounts. It may also include the long-term amount of loans and receivables, as well as property acquired for resale and the corpus (principal) of a permanent fund.

720 **Restricted Fund Balance** – The restricted fund balance classification should be reported when legally enforceable constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

730 **Committed Fund Balance** – The committed fund balance classification reflects specific purposes pursuant to constraints imposed by formal action at the district's highest level of decisionmaking authority (generally the governing board). Such constraints can only be removed or changed by the same form of formal action.

740 **Assigned Fund Balance** – The assigned fund balance classification reflects amounts that are constrained by the government's *intent* to be used for specific purposes, but meet neither the restricted nor committed forms of constraint. Also, the assigned fund balance classification is the residual classification for the special revenue, debt service, capital projects, and/or permanent funds after nonspendable, restricted, and committed balances have been identified (unless the residual amount is negative, which would require presentation as unassigned fund balance).

750 **Unassigned Fund Balance** – The unassigned fund balance classification is the residual classification, for the general fund only, after nonspendable, restricted, committed, and assigned balances have been identified. It is also used to report the residual amount for all *other* governmental funds after nonspendable, restricted, and committed balances have been identified, if the residual amount is negative.

760 **Net Investment in Capital Assets** – This account is used to record the component of net position invested in capital assets, net of related debt, that represents total capital assets less accumulated depreciation less debt directly related to capital assets. This account is to be used only in proprietary funds and entity-wide statements. (This was previously fund balance code 740.)

770 **Restricted Net Position** – This account is used to record the component of net position that represents net assets legally restricted by sources internal or external to the organization. This account is to be used only in proprietary funds and entity-wide statements. (This was previously fund balance code 750.)

780 **Unrestricted Net Position** – This account is used to record the component of net position that represents net position not classified in accounts 760 and 770. This account is to be used only in proprietary funds and entity-wide statements. (This was previously fund balance code 760.)

Classifications of Revenue and Other Financing Sources

These codes are for recording revenue and other receivables by source. Each classification is presented by a code number followed by a description.

Revenues

1000 **Revenue From Local Sources.**

1100 **Taxes Levied/Assessed by the School District.** Compulsory charges levied by the school district to finance services performed for the common benefit. (Revenues 1110 through 1190 are specific taxes levied/assessed by the school district.)

1110[5] **Ad Valorem Taxes (Levied/Assesed by School Districts).** Taxes levied by a school district on the assessed value of real and personal property located within the school district that, within legal limits, is the final authority in determining the amount to be raised for school purposes. Separate accounts may be maintained for real property and for personal property. Penalties and interest on ad valorem taxes should be included in account 1140.

1120[5] **Sales and Use Taxes (Levied/Assesed by School Districts).** Taxes assessed by the school district and imposed on the sale and consumption of goods and services. They can be imposed either as a general tax on the retail price of all goods and/or services sold within the school district jurisdiction, with few or limited exemptions, or as a tax on the sale or consumption of selected goods and services. Separate accounts may be maintained for general sales tax and for selective sales taxes. Penalties and interest on sales and use taxes should be included in account 1140.

1130[5] **Income Taxes (Levied/Assesed by School Districts).** Taxes assessed by the school district and measured by net income—that is, by gross income less certain deductions permitted by law. These taxes can be levied on individuals, corporations, or unincorporated businesses where the income is taxed distinctively from individual income. Separate accounts may be maintained for individual, corporate, and unincorporated business income taxes. Penalties and interest on income taxes should be included in account 1140.

1140[5] **Penalties and Interest on Taxes (Levied/Assesed by School Districts).** Revenue from penalties for the payment of taxes after the due date and the interest charged on delinquent taxes from the due date of actual payment. A separate account for penalties and interest on each type of tax may be maintained.

1190[5] **Other Taxes (Levied/Assesed by School Districts).** Other forms of taxes the school district levies/assesses, such as licenses and permits. Separate accounts may be maintained for each specific type of tax.

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[5] Account codes that are necessary for NCES reporting.

1200[5] **Revenue from Local Governmental Units Other Than School Districts.** Revenue from the appropriations of another local governmental unit. The school district is not the final authority, within legal limits, in determining the amount of money to be received, if the money is raised by taxes or other means that are not earmarked for school purposes. This classification includes revenue from townships, municipalities, and counties. In a city school system, the municipality would be considered a local governmental unit. In this instance, revenue from the county would be considered revenue from an intermediate source and coded in the 2000 revenue series. (Revenues 1210 through 1290 are specific groups of revenue from other government units, besides the school district.)

1210[5] **Ad Valorem Taxes (Received from Other Government Units).** Taxes levied for school purposes by a local governmental unit other than a school district. The school district is not the final authority, within legal limits, in determining the amount to be raised. For example, after a school district has determined that a certain amount of revenue is necessary, another governmental unit may exercise discretionary power in reducing or increasing the amount. Separate accounts may be maintained for real property and for personal property. Penalties and interest on ad valorem taxes should be included in account 1240.

1220 **Sales and Use Tax (Received from Other Government Units).** Taxes assessed by a local governmental unit other than a school district and imposed on the sale and consumption of goods and services. They can be imposed either as a general tax on the retail price of all goods and/or services sold within the school district jurisdiction, with few or limited exemptions, or as a tax on the sale or consumption of selected goods and services. Separate accounts may be maintained for general sales tax and for selective sales taxes. Penalties and interest on sales and use taxes should be included in account 1240.

1230 **Income Taxes (Received from Other Government Units).** Taxes assessed by a local governmental unit other than a school district and measured by net income—that is, by gross income less certain deductions permitted by law. These taxes can be levied on individuals, corporations, or unincorporated businesses where there is income. Separate accounts may be maintained for individual, corporate, and unincorporated business income taxes. Penalties and interest on income taxes should be included in account 1240.

1240 **Penalties and Interest on Taxes (Received from Other Government Units).** Revenue from penalties for the payment of taxes after the due date and the interest charged on delinquent taxes from the due date of actual payment. A separate account for penalties and interest on each type of tax may be maintained.

1280 **Revenue in Lieu of Taxes (Received from Other Government Units).** Payments made out of general revenues by a local governmental unit to the school district in lieu of taxes it would have had to pay had its property or other tax base been subject to taxation by the school district on the same basis as privately owned property. Such revenue would include

[5] Account codes that are necessary for NCES reporting.

payments made for privately owned property that is not subject to taxation on the same basis as other privately owned property because of action by the local governmental unit.

1290 **Other Taxes (Received from Other Government Units).** Other forms of taxes by a local governmental unit other than a school district, such as licenses and permits. Separate accounts may be maintained for each specific type of tax.

1300 **Tuition.** Revenue from individuals, welfare agencies, private sources, and other school districts and government sources for education provided by the school district.

1310[5] **Tution From Individuals**

1311[5] **Tuition from Individuals Excluding Summer School.**

1312[5] **Tuition from Individuals for Summer School.**

1320[5] **Tuition from Other Government Sources Within the State.**

1321[5] **Tuition from Other School Districts Within the State.**

1322[5] **Tuition from Other Government Sources Excluding School Districts Within the State.**

1330[5] **Tuition from Other Government Sources Outside the State.**

1331[5] **Tuition from School Districts Outside the State.**

1340[5] **Tuition from Other Private Sources (Other Than Individuals).**

1350[5] **Tuition from the State/Other School Districts for Voucher Program Students.**

1400 **Transportation Fees.** Revenue from individuals, welfare agencies, private sources, or other school districts and government sources for transporting students to and from school and school activities.

1410[5] **Transportation Fees from Individuals.**

1420[5] **Transportation Fees from Other Government Sources Within the State.**

1421[5] **Transportation Fees from Other School Districts Within the State.**

1422[5] **Transportation Fees from Other Government Sources Excluding School Districts Within the State.**

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1430[5] **Transportation Fees from Other Government Sources Outside the State.**

1431[5] **Transportation Fees from Other School Districts Outside the State.**

1440[5] **Transportation Fees from Other Private Sources (other than individuals).**

1500[5] **Investment Income.** Revenue from short-term and long-term investments.

1510 **Interest on Investments.** All interest revenue on investments in U.S. Treasury and agency obligations, commercial paper, savings accounts, time certificates of deposit, mortgages, or other interest-bearing instruments. This would also include interest on demand deposits.

1520 **Dividends on Investments.** Revenue from dividends on stocks held for investment.

1530 **Net Increase in the Fair Value of Investments.** Gains recognized from the sale of investments or changes in the fair value of investments. Gains represent the excess of sale proceeds (or fair value) over cost or any other basis at the date of sale (or valuation). All recognized investment gains may be accounted for by using this account; however, interest earnings from short-term investments may be credited to account 1510 (for tracking purposes only). For financial reporting purposes, GASB Statement 31 requires that all investment income, including the changes in fair value of investments, be reported as revenue in the operating statement.

Expenditure object code 930 has been established for investment losses so that districts may report gains or losses separately as required in certain states (or where only credits may be reported for revenue codes and only debits for expenditure codes). However, account 1530 may be used to record the net of all investment gains or losses (reported as a contra revenue).

1531 **Realized Gains (Losses) on Investments.** Gains or losses recognized from the sale of investments. Gains represent the excess of sale proceeds over cost or any other basis at the date of sale. Losses represent the excess of the cost or any other basis at the date of sale over sales value. For financial reporting purposes, the net of all realized and unrealized investment gains and losses should be reported as a single line in the financial statements; however, this account and the following account may be used for internal tracking purposes.

1532[5] **Unrealized Gains (Losses) on Investments.** Gains or losses recognized from changes in the value of investments. Gains represent the excess of fair value over cost or any other basis at the date of valuation. Losses represent the excess of the cost or any other basis at the date of valuation over fair value. For financial reporting purposes, the net of all realized and unrealized investment gains and losses should be reported as a single line in the financial statements; however, this account and the previous account may be used for internal tracking purposes.

1540 **Investment Income from Real Property.** Revenue for rental, use charges, and other income on real property held for investment purposes.

1600[5] **Food Services.** Revenue for dispensing food to students and adults. Any revenue from food rebates should be reported here as well.

1610 **Daily Sales—Reimbursable Programs.** Revenue from students for the sale of breakfasts, lunches, and milk that are considered reimbursable by the U.S. Department of Agriculture. Federal reimbursements are not entered here. They should be recorded under revenue source 4500. State reimbursements are not entered here. They should be recorded under revenue source 3200.

1611 **Daily Sales—School Lunch Program.** Revenue from students for the sale of reimbursable lunches as part of the National School Lunch Program.

1612 **Daily Sales—School Breakfast Program.** Revenue from students for the sale of reimbursable breakfasts as part of the School Breakfast Program.

1613 **Daily Sales—Special Milk Program.** Revenue from students for the sale of reimbursable milk as part of the Special Milk Program.

1614 **Daily Sales—After-School Programs.** Revenue from students from the sale of reimbursable costs from after-school programs.

1620 **Daily Sales—Nonreimbursable Programs.** Revenue from students or adults for the sale of nonreimbursable breakfasts, lunches, and milk. This category includes all sales to adults, the sale of extra lunches to students, and a la carte sales.

1630 **Special Functions.** Revenue from students, adults, or organizations for the sale of food products and services considered special functions. Some examples are potlucks, Parent-Teacher Association (PTA)/Parent-Teacher Organization (PTO)-sponsored functions, and athletic banquets.

1650 **Daily Sales—Summer Food Programs.** Revenue from students from the sale of reimbursable costs from summer programs.

1700[5] **District Activities.** Revenue resulting from cocurricular and extracurricular activities controlled and administered by the school district. Student activity revenues should be reported here as well, but school districts should have methods internally to track student activity revenue separately. (See chapter 8 for further clarification.)

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[5] Account codes that are necessary for NCES reporting.
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1710 **Admissions.** Revenue from patrons of a school-sponsored activity such as a concert or a football game.

1720 **Bookstore Sales.** Revenue from sales by students or student-sponsored bookstores.

1730 **Student Organization Membership Dues and Fees.** Revenue from students for memberships in school clubs or organizations.

1740 **Fees.** Revenue from students for fees such as locker fees, towel fees, and equipment fees. Tuition fees are recorded under the appropriate account in the 1300 series. Transportation fees are recorded under the appropriate account in the 1400 series. Textbook fees are recorded in the 1940 series.

1750[5] **Revenue From Enterprise Activities.** Revenue (gross) from vending machines, school stores, soft drink machines, and so on, not related to the regular food service program. These revenues are normally associated with activities at the campus level that generate incremental local revenues for campus use, but may include revenue that benefits the general operations of the district.

1790 **Other Activity Income.** Other revenue from school or district activities.

1800[5] **Revenue From Community Services Activities.** Revenue from community services activities operated by a school district. For example, revenue received from operation of a skating facility by a school district as a community service would be recorded here. Multiple accounts may be established within the 1800 series to differentiate various activities.

1900[5] **Other Revenue From Local Sources.** Other revenue from local sources not classified above.

1910[5] **Rentals.** Revenue from the rental of either real or personal property owned by the school district. Rental of property held for income purposes is not included here, but is recorded under account 1540.

1920[5] **Contributions and Donations From Private Sources.** Revenue associated with contributions and donations made by private organizations. These organizations include, but are not limited to, educational foundations, PTA/PTO organizations, campus booster clubs, and private individuals. This code should be used to record on-behalf payments made by private organizations to school district personnel (e.g., stipends paid to teachers or other school district staff).

1930[5] **Gains or Losses on the Sale of Capital Assets.** The amount of revenue over (under) the book value of the capital assets sold. For example, the gain on the sale would be the portion of the selling price received in excess of the depreciated value (book value) of the asset.

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[5] Account codes that are necessary for NCES reporting.

This account is used only in proprietary funds, fiduciary funds, and entity-wide statements. Revenue account 5300 is used for governmental funds.

An additional account (expenditure object code 940) has been established for accounting for losses from capital asset sales so that districts may report gains or losses separately as required in certain states (or where only credits may be reported for revenue codes and only debits for expenditure codes). However, account 1930 may be used to record all gains or losses on these sales (reported as a contra revenue).

1940[5] **Textbook Sales and Rentals.** Revenue from the rental or sale of textbooks or workbooks.

1941 **Textbook Sales.** Revenue from the sale of textbooks.

1942 **Textbook Rentals.** Revenue from the rental of textbooks, and fees and fines associated with textbooks.

1950[5] **Miscellaneous Revenues From Other School Districts.** Revenue from services provided other than for tuition and student transportation services. These services could include data processing, purchasing, maintenance, cleaning, consulting, and guidance.

1951[5] **Miscellaneous Revenue from Other School Districts Within the State.**

1952[5] **Miscellaneous Revenue from Other School Districts Outside the State.**

1960[5] **Miscellaneous Revenues from Other Local Governmental Units.** Revenue from services provided to other local governmental units, including the state. These services could include nonstudent transportation, data processing, purchasing, maintenance, cleaning, cash management, and consulting.

1970[5] **Revenues From Other Departments in the Agency.** Revenues from services provided to other departments in the agency for services such as printing or data processing. This account is only used with internal services funds. Do not include internal services fund revenues or expenditures in the entity-wide statements unless revenue is generated from outside the school district or education entity. Revenue from private individuals, businesses, and associations for services provided should be coded to 1990 Miscellaneous Local Revenue.

1980[5] **Refund of Prior Year's Expenditures.** Expenditures that occurred in prior year that are refunded this year. If the refund and the expenditure occurred in the current year, reduce this year's expenditures, as prescribed by Generally Accepted Accounting Principles (GAAP). Expenditures should not, however, be reduced below zero.

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[5] Account codes that are necessary for NCES reporting.

1990[5] **Miscellaneous Local Revenue.** Revenue from local sources not provided for elsewhere, including services provided to individuals. Other examples could include food rebates, coupon refunding, and sales of materials.

2000[5] **Revenue From Intermediate Sources.**

2100[5] **Unrestricted Grants-in-Aid.** Revenue recorded as grants by the school district from an intermediate unit that can be used for any legal purpose desired by the school district without restriction. Separate accounts may be maintained for general-source grants-in-aid that are not related to specific revenue sources of the intermediate governmental unit and/or for those assigned to specific sources of revenue as appropriate. May be used with reporting/project codes to differentiate grants-in-aid.

2200[5] **Restricted Grants-in-Aid.** Revenue recorded as grants by the school district from an intermediate unit that must be used for a categorical or specific purpose. If such money is not completely used by the school district, it must be returned, usually to the intermediate governmental unit. Separate accounts may be maintained for general-source grants-in-aid that are not related to specific revenue sources of the intermediate governmental unit and for those assigned to specific sources of revenue as appropriate. May be used with reporting/project codes to differentiate grants-in-aid.

2800[5] **Revenue in Lieu of Taxes.** Commitments or payments made out of general revenues by an intermediate governmental unit to the school district in lieu of taxes it would have had to pay had its property or other tax base been subject to taxation by the school district on the same basis as privately owned property or other tax base. This code would include payment made for privately owned property that is not subject to taxation on the same basis as other privately owned property because of action by the intermediate governmental unit.

2900[5] **Revenue for/on Behalf of the School District.** Commitments or payments made by an intermediate governmental jurisdiction for the benefit of the school district or contributions of equipment or supplies. Such revenue includes the payment to a pension fund by the intermediate unit on behalf of a school district employee for services rendered to the school district and a contribution of capital assets by an intermediate unit to the school district. Separate accounts should be maintained to identify the specific nature of the revenue item.

3000[5] **Revenue From State Sources.**

3100 **Unrestricted Grants-in-Aid.** Revenue recorded as grants by the school district from state funds that can be used for any legal purpose desired by the school district without restriction. Separate accounts may be maintained for general grants-in-aid that are not related to specific revenue sources of the state and for those assigned to specific sources of revenue as appropriate. May be used with reporting/project codes to differentiate grants-in-aid.

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[5] Account codes that are necessary for NCES reporting.

3200 **Restricted Grants-in-Aid.** Revenue recorded as grants by the school district from state funds that must be used for a categorical or specific purpose. If such money is not completely used by the school district, it must be returned, usually to the state. Separate accounts may be maintained for general-source grants-in-aid that are not related to specific revenue sources of the state and for those assigned to specific sources of revenue as appropriate. May be used with reporting/project codes to differentiate grants-in-aid.

3700[5] **State Grants Through Intermediate Sources.** Revenues from the state government through an intermediate agency.

3800 **Revenue in Lieu of Taxes.** Commitments or payments made out of general revenues by a state to the school district in lieu of taxes it would have had to pay had its property or other tax base been subject to taxation by the school district on the same basis as privately owned property. This code includes payment made for privately owned property that is not subject to taxation on the same basis as other privately owned property because of action by the state.

3900[5] **Revenue for/on Behalf of the School District.** Commitments or payments made by a state for the benefit of the school district or contributions of equipment or supplies. Such revenue includes the payment to a pension fund by the state on behalf of a school district employee for services rendered to the school district and a contribution of capital assets by a state unit to the school district. Separate accounts may be maintained to identify the specific nature of the revenue item.

4000 **Revenue From Federal Sources.**

4100[5] **Unrestricted Grants-in-Aid Direct from the Federal Government.** Revenues direct from the federal government as grants to the school district that can be used for any legal purpose desired by the school district without restriction.

4200[5] **Unrestricted Grants-in-Aid from the Federal Government Through the State.** Revenues from the federal government through the state as grants that can be used for any legal purpose desired by the school district without restriction.

4300[5] **Restricted Grants-in-Aid Direct From the Federal Government.** Revenues direct from the federal government as grants to the school district that must be used for a categorical or specific purpose. If such money is not completely used by the school district, it usually is returned to the federal governmental unit.

4500[5] **Restricted Grants-in-Aid From the Federal Government Through the State.** Revenues from the federal government through the state as grants to the school district that must be used for a categorical or specific purpose.

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[5] Account codes that are necessary for NCES reporting.

4700[5] **Grants-in-Aid From the Federal Government Through Other Intermediate Agencies.** Revenues from the federal government through an intermediate agency.

4800[5] **Revenue in Lieu of Taxes.** Commitments or payments made out of general revenues by the federal government to the school district in lieu of taxes it would have had to pay had its property or other tax base been subject to taxation by the school district on the same basis as privately owned property or other tax base. Such revenue includes payment made for privately owned property that is not subject to taxation on the same basis as other privately owned property because of action by the federal governmental unit.

4900[5] **Revenue for/on Behalf of the School District.** Commitments or payments made by the federal government for the benefit of the school district or contributions of equipment or supplies. Such revenue includes a contribution of capital assets by a federal governmental unit to the school district and foods donated by the federal government to the school district. Separate accounts should be maintained to identify the specific nature of the revenue item.

5000[5] **Other Financing Sources.**

5100 **Issuance of Bonds.** Used to record the face amount of the bonds that are issued. Short-term debt proceeds should *not* be classified as revenue. When a school district issues short-term debt (debt with a duration of less than 12 months) that is to be repaid from governmental funds, a liability (notes payable) should be recorded in the balance sheet of the fund responsible for repayment of the debt.

5110 **Bond Principal.** Used to record the face amount of bonds sold.

5120 **Premium on the Issuance of Bonds.** Proceeds from that portion of the sale price of bonds in excess of or below their par value. The premium represents an adjustment of the interest rate and will be amortized using revenue account 6200. (Discounts on bonds are now coded to expenditure object 925 Discount on the Issuance of Bonds.)

5200 **Fund Transfers In.** Used to classify operating transfers from other funds of the district.

5300 **Proceeds From the Disposal of Real or Personal Property.** Proceeds from the disposal of school property or compensation for the loss of real or personal property. Any gain or loss on the disposal of property for proprietary or fiduciary funds is recorded in account 1930. Account 5300 should be used only for proceeds from the disposal of assets that do not have significant value. The reporting of major asset sales should be recorded as special items using account 6300.

5400 **Loan Proceeds.** Proceeds from loans greater than 12 months.

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[5] Account codes that are necessary for NCES reporting.

5500 **Capital Lease Proceeds.** Proceeds from capital leases.

5600 **Other Long-Term Debt Proceeds.** Proceeds from other long-term debt instruments not captured in the preceding codes (e.g., certificates of obligation).

6000 **Other Revenue Items.**

6100 **Capital Contributions.** Capital assets acquired as the result of a donation or bequest of an individual, estate, other government, corporation, or affiliate organization.

6200[5] **Amortization of Premium on Issuance of Bonds.** Credit entries associated with the amortization of debt premiums in connection with the issuance of debt. This account is used in proprietary and fiduciary funds only, as well as the government-wide financial statements.
This account has been established for premium amortization so that districts may report amortization of debt premiums and discounts separately as required in certain states (or where only credits may be reported for revenue codes and only debits for expenditure codes). However, expenditure object code 834 may be used to record either debt premiums (reported as a contra revenue if permitted by the state) or discounts.

6300 **Special Items.** Used to classify special items in accordance with GASB Statement 34. Included are significant transactions or events within the control of the school district administration that are either unusual in nature or infrequent in occurrence. For some districts, these include the sale of certain general governmental capital assets; sale or lease of mineral rights, including oil and gas; sale of infrastructure assets; or significant forgiveness of debt by a financial institution. Special items may also include events that are not within the control of the district. In the governmental funds, these items should be separately captioned or disclosed.

6400 **Extraordinary Items.** Used to classify items in accordance with GASB Statement 34. Included are transactions or events that are outside the control of the school district administration and are *both* unusual in nature and infrequent in occurrence. For some districts, these include insurance proceeds to cover significant costs related to a natural disaster such as a fire, flood, tornado, hurricane, or hail storm; insurance proceeds to cover costs related to an environmental disaster; or a large bequest to a small government by a private citizen.

Classifications of Expenditures

Function

The function describes the activity for which a service or material object is acquired. The functions of a school district are classified into five broad areas: instruction, support services, operation of noninstructional services, facilities acquisition and construction, and debt service. Functions are further classified into subfunctions. Each classification is presented by a code number followed by a description.

1000[5] **Instruction.** Instruction includes the activities dealing directly with the interaction between teachers and students. Teaching may be provided for students in a school classroom, in another location such as a home or hospital, and in other learning situations such as those involving cocurricular activities. It may also be provided through some other approved medium—such as television, radio, computer, the Internet, multimedia, telephone, and correspondence—that is delivered inside or outside the classroom or in other teacher-student settings. Included here are the activities of aides or classroom assistants of any type (graders, teaching machines, etc.) who assist in the instructional process. If proration of expenditures is not possible for department chairpersons who also teach, include department chairpersons who also teach in instruction. Expenditures for full-time department chairpersons should be reported in function 2490 Other Support Services – School Administration. (Used with all programs 100–900.)

2000 **Support Services.** Support services provide administrative, technical (such as guidance and health), and logistical support to facilitate and enhance instruction. These services exist as adjuncts for fulfilling the objectives of instruction, community services, and enterprise programs, rather than as entities within themselves.

2100[5] **Support Services—Students.** Activities designed to assess and improve the well-being of students and to supplement the teaching process.

2110 **Attendance and Social Work Services.** Activities designed to improve student attendance at school and that attempt to prevent or solve student problems involving the home, the school, and the community. Registration activities for adult education programs are included here. Some examples of other services to be reported within this function code are supervision services, attendance services, and student accounting services. (Used with all programs 100–900.)

2120 **Guidance Services.** Activities involving counseling with students and parents; consulting with other staff members on learning problems; evaluating the abilities of students; assisting students as they make their own educational and career plans and choices; assisting students in personal and social development; providing referral assistance; and working with other staff members in planning and conducting guidance programs for students. Guidance

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[5] Account codes that are necessary for NCES reporting.

services may include supervision services, counseling services, appraisal services, student record services, and placement services. (Used with all programs 100–900.)

2130 **Health Services.** Physical and mental health services that are not direct instruction. Included are activities that provide students with appropriate medical, dental, and nursing services. (Used with all programs 100–900.)

2140 **Psychological Services.** Activities concerned with administering psychological tests and interpreting the results; gathering and interpreting information about student behavior; working with other staff members in planning school programs to meet the special needs of students as indicated by psychological tests and behavioral evaluation; and planning and managing a program of psychological services, including psychological counseling for students, staff, and parents. This function includes the supervision of psychological services, related testing and counseling services, and psychotherapy services. (Used with all programs 100–900.)

2150 **Speech Pathology and Audiology Services.** Activities that identify, assess, and treat children with speech, hearing, and language impairments. (Usually used with program 200.)

2160 **Occupational Therapy-Related Services.** Activities that assess, diagnose, or treat students for all conditions requiring the services of an occupational therapist. (Usually used with program 200.)

2170 **Physical Therapy-Related Services.**

2180 **Visually Impaired/Vision Services.**

2190 **Other Support Services—Student.** Other support services to students not classified elsewhere in the 2100 series.

2200[5] **Support Services—Instruction.** Activities associated with assisting the instructional staff with the content and process of providing learning experiences for students.

2210 **Improvement of Instruction.** Activities primarily for assisting instructional staff in planning, developing, and evaluating the process of providing learning experiences for students. These activities include curriculum development, techniques of instruction, child development and understanding, and staff training. (Used with all programs 100–900.)

2212 **Instruction and Curriculum Development.** Activities that aid teachers in developing the curriculum, preparing and using special curriculum materials, and understanding and appreciating the various techniques that stimulate and motivate students.

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[5] Account codes that are necessary for NCES reporting.

2213 **Instructional Staff Training.** Activities associated with the professional development and training of instructional personnel. These include such activities as in-service training (including mentor teachers), workshops, conferences, demonstrations, courses for college credit (tuition reimbursement), and other activities related to the ongoing growth and development of instructional personnel. Training that supports the use of technology for instruction should be included in this code (states may establish a subobject code for specific tracking of technology-related training costs). The incremental costs associated with providing substitute teachers in the classroom (while regular teachers attend training) should be captured in this function code. All costs should be charged to this code regardless of whether training services are provided internally or purchased from external vendors. It should be noted that the salary of a teacher who is attending training would still be reported in function 1000.

2219 **Other Improvement of Instruction Services.** Activities for improving instruction other than those classified above.

2220 **Library/Media Services.** Activities concerned with directing, managing, and supervising educational media services (e.g., supervisory personnel) as well as such activities as selecting, acquiring, preparing, cataloging, and circulating books and other printed materials; planning for the use of the library by students, teachers, and other members of the instructional staff; and guiding individuals in their use of library books, reference guides and materials, catalog materials, special collections, and other materials, whether maintained separately or as a part of an instructional materials center. These activities include developing and acquiring library materials and operating library facilities. Textbooks are not charged to this function, but rather to the instruction function. (Used with all programs 100–900.)

2230 **Instruction-Related Technology.** This function category encompasses all technology activities and services for the purpose of supporting instruction. These activities include expenditures for internal technology support as well as support provided by external vendors using operating funds. These activities include costs associated with the administration and supervision of technology personnel, systems planning and analysis, systems application development, systems operations, network support services, hardware maintenance and support services, and other technology-related costs that relate to the support of instructional activities. Specifically, costs associated with the operation and support of computer learning labs, media center computer labs, instructional technology centers, instructional networks, and similar operations should be captured in this code. Technology that is used by students in the classroom or that has a student instruction focus should be coded to function 1000. (Used with all programs 100–900.)

It should be noted that E-Rate is not specifically addressed with the accounting codes for technology, as GASB has not issued applicable accounting and financial reporting guidance. Refer to chapter 5 for a broader discussion of E-Rate.

- **Student Computer Centers.** Activities concerned with supporting and maintaining computer centers (outside the classroom) that are established to support the instructional environment. These centers may be located in the library or in other locations but are not primarily dedicated to student-teacher learning. Computer centers that are primarily dedicated to instruction should be coded to instruction.

- **Technology Service Supervision and Administration.** Activities concerned with directing, managing, and supervising data-processing services.

- **Systems Analysis and Planning.** Activities concerned with searching for and evaluating alternatives for achieving defined objectives, based on judgment and, wherever possible, on quantitative methods. Where applicable, these activities pertain to the development of data-processing procedures or application to electronic data-processing equipment.

- **Systems Application Development.** Activities concerned with the preparation of a logical sequence of operations to be performed, either manually or electronically, in solving problems or processing data. These activities also involve preparing coded instructions and data for such sequences.

- **Systems Operations.** Activities concerned with scheduling, maintaining, and producing data. These activities include operating business machines, data preparation devices, and data-processing machines.

- **Network Support.** Services that support the networks used for instruction-related activities.

- **Hardware Maintenance and Support.**

- **Professional Development for Instruction-Focused Technology Personnel.** Costs that are incurred when staff acquire knowledge and skills to support instructional technologies. Technology training for instructional staff should be reported in function 2213 Instructional Staff Training.

2240 **Academic Student Assessment.** Expenditures for academic assessments of students that are not initiated by the teacher, but by the school district or state education agency. (Used with programs 100–700.)

2290 **Other Support Services—Instructional Staff.** Services supporting the instructional staff not properly classified elsewhere in the 2200 series. (Used with all programs 100–900.)

2300[5] **Support Services—General Administration.** Activities concerned with establishing and administering policy for operating the school district.

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[5] Account codes that are necessary for NCES reporting.

2310 **Board of Education.** Activities of the board that has been created according to state law and vested with responsibilities for educational activities in a given administrative unit. Some examples of services to be included here are board secretary and clerk services if they primarily provide services to the board. (Used with all programs 100–900.)

- **Supervision of Board of Education Services.** Activities concerned with directing and managing the general operation of the board of education. These include the activities of the members of the board of education, but do not include any special activities defined in the other areas of responsibility described below. They also include any activities of the district performed in support of school district meetings. Legal activities to interpret the laws and statutes and general liability situations are charged here, as are the activities of external auditors.

- **Board Secretary/Clerk Services.** The activities required to perform the duties of the secretary or clerk of the board of education.

- **Board Treasurer Services.** The activities required to perform the duties of the treasurer of the board of education.

- **Election Services.** Services rendered in connection with any school system election, including elections of officers and bond elections.

- **Tax Assessment and Collection Services.** Services rendered in connection with tax assessment and collection.

- **Staff Relations and Negotiations.** Activities concerned with staff relations systemwide and the responsibilities for contractual negotiations with both instructional and noninstructional personnel.

- **Legal Services.** All legal service expenditures should be reported here. See object 820 for guidance on judgments against the school district.

- **Other Board of Education Services.** Board of education services that cannot be classified under the preceding areas of responsibility.

2320 **Executive Administration.** Activities associated with the overall general administration or executive responsibility of the entire school district (used with all programs 100–900). Some typical services included in this function code are as follows:

- **Office of the Superintendent.** Activities performed by the superintendent and such assistants as deputy, associate, and assistant superintendents in generally directing and managing all affairs of the school district. These include all personnel and materials in the office of the chief executive officer. Activities of the offices of the deputy

superintendents should be charged here, unless the activities can be better coded to another function.

- **Community Relations.** Activities and programs developed and operated systemwide for bettering school-community relations.

- **State and Federal Relations.** Activities associated with developing and maintaining good relationships with state and federal officials. Activities associated with grant procurement are also included.

- **Other Executive Administration.** Other general administrative services that cannot be recorded under the preceding categories.

2400[5] **Support Services—School Administration.** Activities concerned with overall administrative responsibility for a school.

2410 **Office of the Principal.** Activities concerned with directing and managing the operation of a particular school. They include the activities performed by the principal, assistant principals, and other assistants while they supervise all operations of the school, evaluate the staff members of the school, assign duties to staff members, supervise and maintain the records of the school, and coordinate school instructional activities with those of the school district. These activities also include the work of clerical staff in support of teaching and administrative duties at the school building level. (Used with all programs 100–900.)

2490 **Other Support Services—School Administration.** Other school administration services. This function includes graduation expenditures and expenses and full-time department chairpersons. (Used with all programs 100–900.)

2500[5] **Central Services.** Activities that support other administrative and instructional functions, including fiscal services, human resources, planning, and administrative information technology.

2510 **Fiscal Services.** Activities concerned with the fiscal operations of the school district. This function includes budgeting, receiving and disbursing, financial and property accounting, payroll, inventory control, internal auditing, and investments and funds management. Fiscal services are inclusive of supervision of fiscal services, budgeting services, and payroll, internal audit, and general accounting functions. Board secretary, clerk, and board treasurer services should be reported in 2510 if the positions serve the district and do not provide services directly to board members. Otherwise, function 2310 would be used. (Used with all programs 100–900.)

[5] Account codes that are necessary for NCES reporting.

2520 **Purchasing, Warehousing, and Distributing Services.** Activities concerned with purchasing, receiving, storing, and distributing supplies, furniture, equipment, and materials used in schools or school system operations. (Used with all programs 100–900.)

2530 **Printing, Publishing**, **and Duplicating Services.** The activities of printing and publishing administrative publications such as annual reports, school directories, and manuals. Activities here also include centralized services for duplicating school materials and instruments such as school bulletins, newsletters, and notices. (Duplicating services directly related to instruction should be reported in function 1000.) (Used with all programs 100–900.)

2540 **Planning, Research, Development, and Evaluation Services.** Activities associated with conducting and managing systemwide programs of planning, research, development, and evaluation for a school system. (Used with all programs 100–900.)

- **Planning services** include activities concerned with selecting or identifying the overall, long-range goals and priorities of the organization or program. They also involve formulating various courses of action needed to achieve these goals by identifying needs and the relative costs and benefits of each course of action.

- **Research services** include activities concerned with the systematic study and investigation of the various aspects of education, undertaken to establish facts and principles.

- **Development services** include activities in the deliberate, evolving process of improving educational programs.

- **Evaluation services** include activities concerned with ascertaining or judging the value or amount of an action or an outcome. This is done through careful appraisal of previously specified data in light of the particular situation and previously established goals.

2560 **Public Information Services.** Activities concerned with writing, editing, and other preparation necessary to disseminate educational and administrative information to students, staff, managers, and the general public through direct mailing, the various news media, e-mail, the Internet and websites, and personal contact. The information services function code includes related supervision and internal and public information services. Technology that supports this code is included in function 2580. (Used with all programs 100–900.)

2570 **Personnel Services.** Activities concerned with maintaining efficient personnel for the school system. This code includes such activities as recruitment and placement, noninstructional staff training, staff transfers, in-service training, health services, and staff accounting. (Used with all programs 100–900.)

- **Supervision of Personnel Services.** The activities of directing, managing, and supervising staff services.

- **Recruitment and Placement.** Activities concerned with employing and assigning personnel for the school district.

- **Personnel Information.** Services rendered in connection with the systematic recording and summarizing of information relating to staff members employed by the school district.

- **Noninstructional Personnel Training.** Activities associated with the professional development and training of noninstructional personnel. These include such activities as in-service training, seminars and conferences, continuing professional education, courses for college credit (tuition reimbursement), and other activities related to the ongoing growth and development of noninstructional personnel. The incremental costs associated with providing temporary employees to perform job duties while regular employees attend training should be captured in this function code. All costs should be charged to this code regardless of whether training services are provided internally or purchased from external vendors.

- **Health Services.** Activities concerned with medical, dental, and nursing services provided for school district employees. Included are physical examinations, referrals, and emergency care outside of employee's health insurance.

- **Other Personnel Services.** Personnel services that cannot be classified under the preceding functions.

2580 **Administrative Technology Services**. Activities concerned with supporting the school district's information technology systems, including supporting administrative networks, maintaining administrative information systems, and processing data for administrative and managerial purposes. These activities include expenditures for internal technology support as well as support provided by external vendors using operating funds. These activities include costs associated with the administration and supervision of technology personnel, systems planning and analysis, systems application development, systems operations, network support services, hardware maintenance and support services, and other technology-related administrative costs. (Used with all programs 100–900.)

- **Technology Service Supervision and Administration.** Activities concerned with directing, managing, and supervising data-processing services.

- **Systems Planning and Analysis.** Activities concerned with searching for and evaluating alternatives for achieving defined objectives, based on judgment and, wherever possible, on quantitative methods. Where applicable, these activities pertain to the development of data-processing procedures or application to electronic data-processing equipment.

- **Systems Application Development.** Activities concerned with the preparation of a logical sequence of operations to be performed, either manually or electronically, in solving problems or processing data. These activities also involve preparing coded instructions and data for such sequences.

- **Systems Operations.** Activities concerned with scheduling, maintaining, and producing data. These activities include operating business machines, data preparation devices, and data-processing machines.

- **Network Support Services.**

- **Hardware Maintenance and Support Services.**

- **Professional Development Costs for Administrative Technology Personnel.**

- **Other Technology Services.** Activities concerned with data processing not described above.

2590 **Other Support Services—Central Services.** Other support services to business not classified elsewhere in the 2500 series. (Used with all programs 100–900.)

2600[5] **Operation and Maintenance of Plant.** Activities concerned with keeping the physical plant open, comfortable, and safe for use and with keeping the grounds, buildings, and equipment in effective working condition and state of repair. These include the activities of maintaining safety in buildings, on the grounds, and in the vicinity of schools. In-service training related to operations and maintenance, including safety and security, should be reported in function 2570 Personnel Services.

2610 **Operation of Buildings.** Activities concerned with keeping the physical plant clean and ready for daily use. They include operating lighting and heating, ventilating, and air conditioning (HVAC) systems and doing minor repairs. Also included are the costs of building rental and property insurance. (Used with all programs 100–900.)

2620 **Maintenance of Buildings.** Activities associated with keeping buildings at an acceptable level of efficiency through repairs and preventative maintenance. (Used with all programs 100–900.)

2630 **Care and Upkeep of Grounds.** Activities involved in maintaining and improving the land (but not the buildings). These include snow removal, landscaping, and grounds maintenance. (Used with all programs 100–900.)

[5] Account codes that are necessary for NCES reporting.

2640 **Care and Upkeep of Equipment.** Activities involved in maintaining equipment owned or used by the school district. They include such activities as servicing and repairing furniture, machines, and movable equipment. (Used with all programs 100–900.)

2650 **Vehicle Operation and Maintenance (Other Than Student Transportation Vehicles).** Activities involved in maintaining general-purpose vehicles such as trucks, tractors, graders, and staff vehicles. These include such activities as repairing vehicles; replacing vehicle parts; and cleaning, painting, greasing, fueling, and inspecting vehicles for safety (i.e., preventive maintenance). Expenditures for driver's education programs should be coded to function 1000 Instruction. (Used with all programs 100–900.)

2660 **Security.** Activities concerned with maintaining a secure environment for students and staff, whether they are in transit to or from school, on a campus or in an administrative facility, or participating in school-sponsored events. These include costs associated with security plan development and implementation, installation of security monitoring devices (e.g., cameras, metal detectors), security personnel (e.g., campus police, security guards), purchase of security vehicles and communication equipment, and related costs. (Used with all programs 100–900.)

2670 **Safety.** Activities concerned with maintaining a safe environment for students and staff, whether they are in transit to or from school, on a campus or in an administrative facility, or participating in school-sponsored events. These include costs associated with installing and monitoring school fire alarm systems and providing school crossing guards, as well as other costs incurred in an effort to ensure the basic safety of students and staff. (Used with all programs 100–900.)

2680 **Other Operation and Maintenance of Plant.** Operation and maintenance of plant services that cannot be classified elsewhere in the 2600 series. (Used with all programs 100–900.)

2700[5] **Student Transportation.** Activities concerned with conveying students to and from school, as provided by state and federal law. These include trips between home and school and trips to school activities. The Transportation Director should be coded here. Expenditures for driver's education programs should be coded to 1000 Instruction.

2710 **Vehicle Operation.** Activities involved in operating vehicles for student transportation, from the time the vehicles leave the point of storage until they return to the point of storage. These include driving buses or other student transportation vehicles. (Used with all programs 100–900.)

2720 **Monitoring Services.** Activities concerned with supervising students in the process of being transported between home and school and between school and school activities. Such supervision can occur while students are in transit and while they are being loaded and

[5] Account codes that are necessary for NCES reporting.

unloaded, and it includes directing traffic at the loading stations. (Used with all programs 100–900.)

2730 **Vehicle Servicing and Maintenance.** Activities involved in maintaining student transportation vehicles. These include repairing vehicle parts; replacing vehicle parts; and cleaning, painting, fueling, and inspecting vehicles for safety. (Used with programs 100–400, 900.)

2790 **Other Student Transportation Services.** Student transportation services that cannot be classified elsewhere in the 2700 series. (Used with programs 100–400, 900.)

2900[5] **Other Support Services.** All other support services not classified elsewhere in the 2000 series. (Used with all programs 100–900.)

3000 **Operation of Noninstructional Services.** Activities concerned with providing noninstructional services to students, staff, or the community.

3100[5] **Food Services Operations.** Activities concerned with providing food to students and staff in a school or school district. This service area includes preparing and serving regular and incidental meals, lunches, or snacks in connection with school activities and food delivery. (Used with all programs 100–900).

3200[5] **Enterprise Operations.** Activities that are financed and operated in a manner similar to private business enterprises, where the stated intent is to finance or recover the costs primarily through user charges. The school district bookstore, for example, could be charged to this code. Instruction should not be charged here, but rather to function 1000. Food services should not be charged here, but rather to function 3100. (Used with all programs 100–900.)

3300[5] **Community Services Operations.** Activities concerned with providing services to the community. Examples of this function would be offering parental training or operating a community swimming pool, a recreation program for the elderly, or a child care center for working parents. Counseling for the parents of students, where the objective is to improve the education and well-being of the student, should be reported in function 2120 Guidance Services. (Used only with program 800.)

4000[5] **Facilities Acquisition and Construction.** Activities concerned with acquiring land and buildings; remodeling buildings; constructing buildings and additions to buildings; initially installing or extending service systems and other built-in equipment; and improving sites. (Used with all programs 100–900.)

4100 **Land Acquisition.** Activities concerned with initially acquiring and improving land.

[5] Account codes that are necessary for NCES reporting.

4200 **Land Improvement.** Activities concerned with making permanent improvements to land, such as grading, fill, and environmental remediation.

4300 **Architecture and Engineering.** The activities of architects and engineers related to acquiring and improving sites and improving buildings. Charges are made to this function only for those preliminary activities that may or may not result in additions to the school district's property. Otherwise, charge these services to function 4100, 4200, 4500, or 4600, as appropriate.

4400 **Educational Specifications Development.** Activities concerned with preparing and interpreting descriptions of specific space requirements to be accommodated in a building. These specifications are interpreted to the architects and engineers in the early stages of blueprint development.

4500 **Building Acquisition and Construction.** Activities concerned with buying or constructing buildings.

4600 **Site Improvements.** Activities concerned with making nonpermanent improvements or enhancements to building sites. These improvements include fencing, walkways, tunnels, and temporary landscaping.

4700 **Building Improvements.** Activities concerned with building additions, reconstruction, and remodeling, as well as with installing or extending service systems and other built-in equipment.

4900 **Other Facilities Acquisition and Construction.** Facilities acquisition and construction activities that cannot be classified above.

5000[5] **Debt Service.** Activities related to servicing the long-term debt of the school district, including payments of both principal and interest. This function should be used to account for bond interest payments, retirement of bonded debt (including current and advance refundings), capital lease payments, and other long-term notes. Interest on short-term notes or loans (repayable within 1 year of receiving the obligation) is charged to function 2510. The receipt and payment of principal on those loans are treated as adjustments to the balance sheet account 451. (Used with all programs 100–900.)

[5] Account codes that are necessary for NCES reporting.

Object

This classification is used to describe the service or commodity obtained as the result of a specific expenditure. Each classification is presented by a code number followed by a description. The nine major object categories are further subdivided.

100[5] **Personal Services—Salaries.** Amounts paid to both permanent and temporary school district employees, including personnel substituting for those in permanent positions. This includes gross salary for personal services rendered while on the payroll of the school district. (Used with all functions except 5000 Debt Service.)

101 **Salaries Paid to Teachers.**
102 **Salaries Paid to Instructional Aides or Assistants.**
103 **Salaries Paid to Substitute Teachers.**

110 **Salaries of Regular Employees.** Full-time, part-time, and prorated portions of the costs for work performed by permanent employees of the school district.

111 **Salaries of Regular Employees Paid to Teachers.**
112 **Salaries of Regular Employees Paid to Instructional Aides and Assistants.**
113 **Salaries of Regular Employees Paid to Substitute Teachers.**

120 **Salaries of Temporary Employees.** Full-time, part-time, and prorated portions of the costs for work performed by employees of the school district who are hired on a temporary or substitute basis.

121 **Salaries of Temporary Employees Paid to Teachers.**
122 **Salaries of Temporary Employees Paid to Instructional Aides and Assistants.**
123 **Salaries of Temporary Employees Paid to Substitute Teachers.**

130 **Salaries for Overtime.** Amounts paid to employees of the school district in either temporary or permanent positions for work performed in addition to the normal work period for which the employee is compensated under regular salaries and temporary salaries above. The terms of such payment for overtime are a matter of state and local regulation and interpretation.

131 **Salaries for Overtime Employees Paid to Teachers.**
132 **Salaries for Overtime Employees Paid to Instructional Aides and Assistants.**
133 **Salaries for Overtime Employees Paid to Substitute Teachers.**

140 **Salaries for Sabbatical Leave.** Amounts paid by the school district to employees on sabbatical leave.

141 **Salaries for Sabbatical Leave Paid to Teachers.**
142 **Salaries for Sabbatical Leave Paid to Instructional Aides and Assistants.**
143 **Salaries for Sabbatical Leave Paid to Substitute Teachers.**

[5] Account codes that are necessary for NCES reporting.

150 **Additional Compensation Such as Bonuses or Incentives.**
151 **Additional Compensation Paid to Teachers.**
152 **Additional Compensation Paid to Instructional Aides and Assistants.**
153 **Additional Compensation Paid to Substitute Teachers.**

200[5] **Personal Services—Employee Benefits.** Amounts paid by the school district on behalf of employees (amounts not included in gross salary, but in addition to that amount). Such payments are fringe benefit payments and, although not paid directly to employees, nevertheless are part of the cost of personal services. (Used with all functions except 5000 Debt Service.)

201 **Employee Benefits for Teachers.**
202 **Employee Benefits for Instructional Aides or Assistants.**
203 **Employee Benefits for Substitute Teachers.**

210 **Group Insurance.** Employer's share of any insurance plan.

211 **Group Insurance for Teachers.**
212 **Group Insurance for Instructional Aides or Assistants.**
213 **Group Insurance for Substitute Teachers.**

220 **Social Security Contributions.** Employer's share of Social Security paid by the school district.

221 **Social Security Payments for Teachers.**
222 **Social Security Payments for Instructional Aides or Assistants.**
223 **Social Security Payments for Substitute Teachers.**

230 **Retirement Contributions.** Employer's share of any state or local employee retirement system paid by the school district, including the amount paid for employees assigned to federal programs.

231 **Retirement Contributions for Teachers.**
232 **Retirement Contributions for Instructional Aides or Assistants.**
233 **Retirement Contributions for Substitute Teachers.**

240[5] **On-Behalf Payments.** Payments made by the state or other governments on behalf of the school district that benefit active employees of the school district. These payments typically include state matching of the retirement contributions of school district personnel. An equal revenue amount should be recorded in revenue source 2900, 3900, or 4900 depending on the source of the payment.

241 **On-Behalf Payments for Teachers.**
242 **On-Behalf Payments for Instructional Aides or Assistants.**

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[5] Account codes that are necessary for NCES reporting.

243 **On-Behalf Payments for Substitute Teachers.**

250 **Tuition Reimbursement.** Amounts reimbursed by the school district to any employee qualifying for tuition reimbursement on the basis of school district policy.

251 **Tuition Reimbursement for Teachers.**
252 **Tuition Reimbursement for Instructional Aides or Assistants.**
253 **Tuition Reimbursement for Substitute Teachers.**

260 **Unemployment Compensation.** Amounts paid by the school district to provide unemployment compensation for its employees. These charges should be distributed to the appropriate functions in accordance with the salary expenditures.

261 **Unemployment Compensation Paid for Teachers.**
262 **Unemployment Compensation Paid for Instructional Aides or Assistants.**
263 **Unemployment Compensation Paid for Substitute Teachers.**

270 **Workers' Compensation.** Amounts paid by the school district to provide workers' compensation insurance for its employees. These charges should be distributed to the appropriate functions in accordance with the salary budget.

271 **Worker's Compensation Paid for Teachers.**
272 **Worker's Compensation Paid for Instructional Aides or Assistants.**
273 **Worker's Compensation for Substitute Teachers.**

280 **Health Benefits.** Amounts paid by the school district to provide health benefits for its current employees or retired employees for whom benefits are paid. These charges should be distributed to the appropriate functions in accordance with the related salary expenditures.

281 **Health Benefits Paid for Teachers.**
282 **Health Benefits Paid for Instructional Aides or Assistants.**
283 **Health Benefits Paid for Substitute Teachers.**

290 **Other Employee Benefits.** Employee benefits other than those classified above, including fringe benefits such as automobile allowances, housing or related supplements, moving expenses, and paid parking. These charges should be distributed to the appropriate functions in accordance with the related salary expenditures.

291 **Other Employee Benefits Paid for Teachers.**
292 **Other Employee Benefits Paid for Instructional Aides or Assistants.**
293 **Other Employee Benefits for Substitute Teachers.**

300[5] **Purchased Professional and Technical Services.** Services that by their nature can be performed only by persons or firms with specialized skills and knowledge. Although a product may or may not result from the transaction, the primary reason for the purchase is the service provided. Included are the services of architects, engineers, auditors, dentists, medical doctors, lawyers, consultants, teachers, and accountants. It is recommended that a separate account be established for each type of service provided to the school district. Services purchased from another school district or from other government sources should be coded to one of the object codes from 590 through 592.

310 **Official/Administrative Services.** Services in support of the various policymaking and managerial activities of the school district. Included are management consulting activities oriented to general governance or business and financial management of the school district; school management support activities; and election services and tax assessing and collecting services. (Usually used with functions 2300, 2400, and 2500.)

320 **Professional Educational Services.** Services supporting the instructional program and its administration. Included are curriculum improvement services, assessment, counseling and guidance services, library and media support, and contracted instructional services. (Usually used with functions 1000, 2100, 2200, 2300, and 2400.)

330 **Employee Training and Development Services.** Services supporting the professional and technical development of school district personnel, including instructional, administrative, and service employees. Included are course registration fees (that are not tuition reimbursement), charges from external vendors to conduct training courses (at either school district facilities or off-site), and other expenditures associated with training or professional development by third-party vendors. All expenditures should be captured in this account, regardless of the type or intent of the training course or professional development activity. Training for instructional staff should be coded to function 2213. Training for noninstructional staff should be coded to function 2570.

340 **Other Professional Services.** Professional services other than educational services that support the operation of the school district. Included, for example, are medical doctors, lawyers, architects, auditors, accountants, bankers, therapists, audiologists, dieticians, editors, negotiations specialists, paying agents, systems analysts, and planners. (Usually used with function 2000, but could also be used with functions 1000–4000.)

350 **Technical Services.** Services to the school district that are not regarded as professional, but that require basic scientific knowledge, manual skills, or both. Included, for example, are data-processing services, purchasing and warehousing services, and graphic arts. (Usually used with function 2000.)

351 **Data-Processing and Coding Services.** Data entry, formatting, and processing services other than programming. (Usually used with functions 2110, 2230, 2240, 2410, 2510, and 2580.)

[5] Account codes that are necessary for NCES reporting.

352 **Other Technical Services.** Technical services other than data-processing and related services. (Usually used with functions 1000–4000.)

400[5] **Purchased Property Services.** Services purchased to operate, repair, maintain, and rent property owned or used by the school district. These services are performed by persons other than school district employees. Although a product may or may not result from the transaction, the primary reason for the purchase is the service provided.

410 **Utility Services.** Expenditures for utility services other than energy services supplied by public or private organizations. Water and sewerage are included here. Telephone and internet services are not included here, but are classified under object 530. (Used with function 2600.)

420 **Cleaning Services.** Services purchased to clean buildings (apart from services provided by school district employees), including, but not limited to, disposal services, snow plowing, custodial services, and lawn care services. (Used with function 2600.)

430 **Repairs and Maintenance Services.** Expenditures for repairs and maintenance services not provided directly by school district personnel. (Used with functions 2600 and 2700.)

431 **Non-Technology-Related Repairs and Maintenance.** Contracts and agreements covering the upkeep of buildings and non-technology equipment. Costs for renovating and remodeling are not included here, but are classified under object 450. (Used with functions 2600 and 2700.)

432 **Technology-Related Repairs and Maintenance.** Expenditures for repairs and maintenance services for technology equipment that are not directly provided by school district personnel. This includes ongoing service agreements for technology hardware (e.g., personal computers and servers). (Used with functions 1000, 2230, and 2580.)

440 **Rentals.** Costs for renting or leasing land, buildings, equipment, and vehicles.

441 **Rentals of Land and Buildings.** Expenditures for leasing or renting land and buildings for both temporary and long-range use by the school district. (Used with function 2610.)

442 **Rentals of Equipment and Vehicles.** Expenditures for leasing or renting equipment or vehicles for both temporary and long-range use by the school district. This includes bus and other vehicle rental when operated by a local school district and similar rental agreements. Include rental vehicles for driver's education programs here. This should be coded to the function where the equipment or vehicle is used. This code excludes costs associated with the rental of computers or other technology-related equipment. These costs should be coded to expenditure object 443 as described below.

[5] Account codes that are necessary for NCES reporting.

443 **Rentals of Computers and Related Equipment.** Expenditures for leasing or renting computers and related equipment for both temporary and long-range use. This should be coded to the function where the equipment is used.

450[5] **Construction Services.** Includes amounts for constructing, renovating, and remodeling buildings or infrastructure assets paid to contractors. This code should also be used to account for the costs of nonpermanent site improvements, such as fencing, walkways, and roads, that are related to buildings and building sites. (Used only with function 4000.)

490 **Other Purchased Property Services.** Purchased property services that are not classified above. Communication services are not included here, but should be included in object 530.

500[5] **Other Purchased Services.** Amounts paid for services rendered by organizations or personnel not on the payroll of the school district (separate from professional and technical services or property services). Although a product may or may not result from the transaction, the primary reason for the purchase is the service provided.

510 **Student Transportation Services.** Expenditures for transporting children to and from school and other activities. (Used only with function 2700.)

511[5] **Student Transportation Purchased From Another School District Within the State.** Amounts paid to other school districts within the state for transporting children to and from school and school-related events. Expenditures for the rental of buses that are operated by personnel on the school district payroll are not recorded here, but rather under object 442. (Used only with function 2700.)

512[5] **Student Transportation Purchased From Another School District Outside the State.** Payments to other school districts outside the state for transporting children to and from school and school-related events. (Used only with function 2700.)

519 **Student Transportation Purchased From Other Sources.** Payments to persons or agencies other than school districts for transporting children to and from school and school-related events. These payments include payments to students who transport themselves, payments to individuals who transport their own children, or payments as reimbursement for student transportation on public carriers. Payments for staff and other persons not enrolled as students should be recorded under object 580. (Used only with function 2700.)

520 **Insurance (Other Than Employee Benefits).** Expenditures for all types of insurance coverage, including property, liability, and fidelity. Insurance for group health is not charged here but is recorded under object 200. (Used with functions 2310, 2610, and 2700.)

530 **Communications.** Services provided by persons or businesses to assist in transmitting and receiving messages or information. This category includes telephone and voice

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[5] Account codes that are necessary for NCES reporting.

communication services; data communication services to establish or maintain computer-based communications, networking, and internet services; video communications services to establish or maintain one-way or two-way video communications via satellite, cable, or other devices; and postal communications services to establish or maintain postage machine rentals, postage, express delivery services, and couriers. Includes licenses and fees for services such as subscriptions to research materials over the Internet (such as downloads). Expenditures for software should be coded to object 650 if the software was not capitalized or object 735 if the software is eligible for capitalization as determined by appendix E. (Usually used with functions 1000, 2230, 2320, 2410, or 2580.)

540 **Advertising.** Expenditures for announcements in professional publications, newspapers, or broadcasts over radio and television. These expenditures include advertising for such purposes as personnel recruitment, legal ads, new and used equipment, and sale of property. Costs for professional advertising or public relations services are not recorded here, but are charged to object 340. (Usually used with functions 2300 or 2500.)

550 **Printing and Binding.** Expenditures for job printing and binding, usually according to specifications of the school district. This includes designing and printing forms and posters, as well as printing and binding school district publications. Preprinted standard forms are not charged here, but are recorded under object 610. (Usually used with function 2530, but may be assigned to other functions. Printing and duplication of materials for classroom use should be coded here and to function 1000.)

560 **Tuition.** Expenditures to reimburse other educational agencies for instructional services to students residing within the legal boundaries described for the paying school district. (Used only with function 1000.)

561[5] **Tuition to Other School Districts (Excluding Charter Schools) Within the State.** Tuition paid to other school districts, excluding charter schools, within the state. Include tuition expenditures made to education service agencies. Report tuition to charter schools under object 564.

562[5] **Tuition to Other School Districts (Including Charter Schools) Outside the State.** Tuition paid to other school districts, including charter schools and education service agencies, outside the state.

563[5] **Tuition to Private Schools.** Tuition paid to private schools within the state and outside the state.

564[5] **Tuition to Charter Schools Within the State.** Tuition paid to charter school agencies within the state.

[5] Account codes that are necessary for NCES reporting.

565[5] **Tuition to Postsecondary Schools.** Tuition paid to postsecondary schools within the state and outside the state.

566[5] **Voucher Payments to Private Schools and to Other School Districts Outside the State.** Voucher payments to private schools (both in-state and out-of-state) and to other school districts outside the state.

567[5] **Voucher Payments to School Districts, including Charter Schools, Within the State.** Voucher payments to school districts within the state and to charter schools within the state.

568[5] **Voucher Payments Directly to Individuals.** Voucher payments to individuals, when the school district or state education agency does not know which school receives the voucher.

569[5] **Tuition—Other.** Includes tuition paid to the state and other governmental organizations (excluding school districts) as reimbursement for providing specialized instructional services to students residing within the boundaries of the paying school district.

So-called reverse state aid payments, which arise out of education finance equalization efforts, are not coded here. Rather, these should be established on the balance sheet or statement of net position at the time taxes are levied as "due to state government." (These amounts are not shown as revenues to the school district.)

570 **Food Service Management.** Expenditures for the operation of a local food service facility by other than employees of the school district. Included are contracted services, such as food preparation, associated with the food service operation. Direct expenditures by the school district for food, supplies, labor, and equipment would be charged to the appropriate object codes. (Used only with function 3100.)

580 **Travel.** Expenditures for transportation, meals, hotel, and other expenditure/expenses associated with staff travel for the school district. Payments for per diem in lieu of reimbursements for subsistence (room and board) also are charged here. (Used with all functions except 5000.)

590 **Interagency Purchased Services.** Any interdistrict payments other than tuition or transportation should be classified here. This code identifies other payments for services made between a school district and other governmental entities. (Used primarily with function 2000. Payments made for instructional staff from another district or agency should be coded here and to function 1000.)

591[5] **Services Purchased From Another School District or Educational Services Agency Within the State.** Payments to another school district within the state for services

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[5] Account codes that are necessary for NCES reporting.

rendered, other than tuition and transportation fees. Examples of such services are data processing, purchasing, nursing, and guidance.

592[5] **Services Purchased From Another School District or Educational Services Agency Outside the State.** Payments to another school district outside the state for services rendered, other than tuition and transportation fees. Examples of such services are data processing, purchasing, nursing, and guidance.

600[5] **Supplies.** Amounts paid for items that are consumed, are worn out, or have deteriorated through use or items that lose their identity through fabrication or incorporation into different or more complex units or substances. Refer to appendix E for the criteria for distinguishing between a supply item and an equipment item.

610 **General Supplies.** Expenditures for all supplies (other than those listed below) for the operation of a school district, including freight and cartage.

A more thorough classification of supply expenditures is achieved by identifying the object with the function—for example, audiovisual supplies or classroom teaching supplies. (Used with all functions except 5000.)

620 **Energy.** Expenditures for energy, including gas, oil, coal, and gasoline, and for services received from public or private utility companies.

621 **Natural Gas.** Expenditures for gas utility services from a private or public utility company. (Used with functions 1000, 2610, and 3100.)

622 **Electricity.** Expenditures for electric utility services from a private or public utility company. (Used with functions 1000, 2610, and 3100.)

623 **Bottled Gas.** Expenditures for bottled gas, such as propane gas received in tanks. (Used with functions 1000, 2610, and 3100.)

624 **Oil.** Expenditures for bulk oil normally used for heating. (Used with function 2610.)

625 **Coal.** Expenditures for raw coal normally used for heating. (Used with function 2610.)

626 **Gasoline.** Expenditures for gasoline and diesel fuel purchased in bulk or periodically from a gasoline service station. (Used with functions 1000, 2650, and 2710.)

629 **Other.** Expenditures for energy that cannot be classified in one of the preceding categories.

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[5] Account codes that are necessary for NCES reporting.

630 **Food.** Expenditures for food used in the school food service program. Food used in instructional programs is charged under object 610. (Used only with function 3100.)

640 **Books and Periodicals.** Expenditures for books, textbooks, and periodicals prescribed and available for general use, including reference books. This category includes the cost of workbooks, textbook binding or repairs, and textbooks that are purchased to be resold or rented. Also recorded here are the costs of binding or other repairs to school library books. The Government Finance Officers Association (GFOA) recommends that software be counted as a capital expense, and object 735, Technology Software, has been established for these expenditures. (Used primarily with functions 1000 and 2200. Books and periodicals for noninstructional staff should be coded to function 2590.)

650 **Supplies—Technology Related.** Technology-related supplies include supplies that are typically used in conjunction with technology-related hardware or software. Some examples are CDs, flash or jump drives, parallel cables, and monitor stands. E-readers, including Kindles, and iPads, that fall below capitalization thresholds should be reported here as well. Software costs below the capitalization threshold should be reported here. Licenses and fees for services such as subscriptions to research materials over the Internet should be reported under 530 Communications. (Used primarily with functions 1000, 2230, and 2580, but may also be used with 2620, 2650, and 2730.)

700[5] **Property.** Expenditures for acquiring capital assets, including land, existing buildings, existing infrastructure assets, and equipment. Additional guidance regarding the classification of property expenditures is provided in exhibit E-1 (in appendix E) and in chapter 5 (under the capital assets and capitalization threshold sections).

710[5] **Land and Land Improvements.** Expenditures for the purchase of land and the improvements thereon. Purchases of air and mineral rights, for example, are included here. Also included are special assessments against the school district for capital improvements, such as streets, curbs, and drains. Not included here, but generally charged to objects 450 or 340 as appropriate, are expenditures for improving sites and adjacent ways after acquisition by the school district. (Used with primarily functions 4100, 4200, and 4600.)

720[5] **Buildings.** Expenditures for acquiring existing buildings and construction of buildings, major permanent structural alterations, renovations, fire protection systems, and other service systems, except payments to public school housing authorities or similar agencies. (Expenditures for installment or lease payments, except interest, that have a terminal date and result in the acquisition of buildings should be assigned to codes 831 and 832.) Expenditures for the contracted construction, alteration, and renovations of buildings are recorded under object 450. Buildings built and alterations and renovations performed by the school district's own staff are charged to objects 100, 200, 610, and 730, as appropriate. Building rent is reported in object 441. (Used with functions 4500 and 4700.)

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[5] Account codes that are necessary for NCES reporting.

730[5] **Equipment.** Expenditures for initial, additional, and replacement items of equipment, such as machinery, furniture and fixtures, and vehicles.

731 **Machinery.** Expenditures for equipment usually composed of a complex combination of parts (excluding vehicles). Examples are lathes, drill presses, and printing presses. (Usually used with functions 1000 and 2600.)

732 **Vehicles.** Expenditures for equipment used to transport persons or objects. Examples are automobiles, trucks, buses, station wagons, and vans. (Usually used with functions 2650 and 2700. Vehicles for driver's education should be coded to function 1000.)

733 **Furniture and Fixtures.** Expenditures for equipment used for sitting, as a support for writing and work activities, and as storage space for material items. (Used with all functions, except 5000.)

734 **Technology-Related Hardware.** Expenditures for technology-related equipment and technology infrastructure. These costs include those associated with the purchase of network equipment, servers, PCs, printers, other peripherals, and devices. Technology-related supplies should be coded to object code 650, Supplies—Technology Related. (Used with all functions, but primarily with 1000, 2230, and 2580.)

735 **Technology Software.** Expenditures for purchased software used for educational or administrative purposes that exceed the capitalization threshold. Expenditures for software that meet the standards for classification as a supply should be coded to object code 650, Supplies—Technology Related. (Used with all functions, but primarily with 1000, 2230, and 2580.)

739 **Other Equipment.** Expenditures for all other equipment not classified elsewhere in the 730 object series.

740[5] **Infrastructure.** Expenditures for purchased infrastructure assets by the school district. These items include water/sewer systems, roads, bridges, and other assets that have significantly longer useful lives than other capital assets. Expenditures for contracted construction of infrastructure are recorded under object 450. Infrastructure built by the school district's own staff is charged to objects 100, 200, 610, and 730, as appropriate. (Used only with function 4000, primarily 4200 and 4600.)

750 **Intangible Assets.** Expenditures for outlays of intangible assets (if not categorized within categories 734 and 735).

790 **Depreciation and Amortization.** The portion of the cost of a capital asset that is charged as an expense during a particular period. In accounting for depreciation (amortization for intangible assets), the cost of a capital asset, less any salvage value, is apportioned over the estimated service life of such an asset, and each period is charged with a portion of

[5] Account codes that are necessary for NCES reporting.

such cost. Through this process, the cost of the asset is ultimately charged off as an expense. This is used only in proprietary funds, fiduciary funds, and the entity-wide statements. (Used with all functions, except 5000.)

800 **Debt Service and Miscellaneous.** Amounts paid for goods and services not otherwise classified above.

810 **Dues and Fees.** Expenditures or assessments for membership in professional or other organizations, as well as student fees (such as entry fees to contests). Tuition expenditures should be reported in objects 560 through 569. (Used with functions 1000 and 2000.)

820 **Judgments Against the School District.** Expenditures from current funds for all judgments (except as indicated below) against the school district that are not covered by liability insurance, but are of a type that might have been covered by insurance. Only amounts paid as the result of court decisions are recorded here. Judgments against the school district resulting from failure to pay bills or debt service are considered noncourt judgments and should be recorded under the appropriate expenditure accounts as though the bills or debt service had been paid when due. (Used only with function 2310.)

830 **Debt-Related Expenditures/Expenses.**

831[5] **Redemption of Principal.** Expenditures to retire bonds (including current and advance refundings) and long-term loans, including lease-purchase arrangements. (Used only with function 5000.)

832[5] **Interest on Long-Term Debt.** Expenditures for interest on bonds or notes, including lease-purchase arrangements. (Used only with function 5000.)

833 **Bond Issuance and Other Debt-Related Costs.** Expenses in connection with bond and other debt issuance costs, including lease-purchase debt issuance costs. (Used only with function 5000.)

834 **Amortization of Premium and Discount on Issuance of Bonds.** Expenses amortized as debt premium and/or discount in connection with the issuance of debt. This account is used only in proprietary funds, fiduciary funds, and the entity-wide statements.

An additional account (revenue source code 6200) has been established for accounting for the amortization of debt premiums such that districts may report premium and discount amortization separately as required in certain states (or where only credits may be reported for revenue codes and only debits for expenditure codes). However, account 834 may be used to record all discount and premium amortization (reported as a contra revenue if permitted by the state). (Used only with function 5000.)

[5] Account codes that are necessary for NCES reporting.

835 **Interest on Short-Term Debt.** Expenditures for interest on short-term debt or anticipation notes. (Used only with function 2510 Fiscal Services.)

890 **Miscellaneous Expenditures.** Amounts paid for goods or services not properly classified in one of the objects included above. The refund of prior year's revenues should be reported here.

900 **Other Items.** Used to classify transactions that are not properly recorded as expenditures/expenses but require control and reporting by the school district.

910 **Fund Transfers Out.** Includes all transactions conveying financial resources from one fund to another within the district.

920 **Payments to Escrow Agents for Defeasance of Debt.** (Used only with function 5000.)

925 **Discount on the Issuance of Bonds.** Proceeds from that portion of the sale of bonds below their par value. The discount represents an adjustment of the interest rate and will be amortized using expenditure object account 834. (Object 925 should only be used with function 5000.)

930 **Net Decreases in the Fair Value of Investments.** Losses recognized from the sale of investments or changes in the fair value of investments. Losses represent the excess of the cost or any other basis at the date of sale (or valuation) over sales value (or fair value). For financial reporting purposes, GASB Statement 31 requires that all investment income, including changes in the fair value of investments, be reported as revenue in the operating statement. (Used only with function 2510.)

This account has been established for investment losses so that districts may report gains or losses separately as required in certain states (or where only credits may be reported for revenue codes and only debits for expenditure codes). However, revenue source 1530 may be used to record all investment gains or losses (reported as a contra revenue if permitted by the state).

931 **Realized Losses on Investments.** Losses recognized from the sale of investments. Losses represent the excess of the cost or any other basis at the date of sale over sales value. For financial reporting purposes, the net of all realized and unrealized investment gains and losses should be reported as a single line in the financial statements; however, this account and the following account may be used for internal tracking purposes. (Used only with function 2510.)

932 **Unrealized Losses on Investments.** Losses recognized from changes in the value of investments. Losses represent the excess of the cost or any other basis at the date of valuation over fair value. For financial reporting purposes, the net of all realized and unrealized investment gains and losses should be reported as a single line in the financial

statements; however, this account and the previous account may be used for internal tracking purposes. (Used only with function 2510.)

940 **Losses on the Sale of Capital Assets.** The excess of book value of the capital assets sold over the amount received. This account is used in proprietary and fiduciary funds only and in the statement of activities. Revenue source 5300 is used for governmental funds. This account has been established for accounting for losses from capital asset sales such that districts may report gains or losses separately as required in certain states (or where only credits may be reported for revenue codes and only debits for expenditure codes). However, source 1930 may be used to record all gains or losses on these sales (reported as a contra revenue).

950 **Special Items.** Used to classify special items in accordance with GASB Statement 34. Included are transactions or events within the control of the school district administration that are either unusual in nature or infrequent in occurrence. For some districts, this may include termination benefits resulting from workforce reductions or costs in connection with an early retirement program offered to all employees represented in one or more classes of employees. Some capital asset impairments, as defined by GASB Statement 42, may be reported as special items. In the governmental funds, these items should be separately captioned or disclosed.

960 **Extraordinary Items.** Used to classify items in accordance with Accounting Principles Board (APB) Opinion No. 30 that are transactions or events that are *both* unusual in nature and infrequent in occurrence. For some districts, this includes significant costs related to a natural disaster such as a fire, flood, tornado, hurricane, or hail storm or costs related to an environmental disaster.

Project/Reporting

The project/reporting code permits school districts to accumulate expenditures to meet a variety of specialized reporting requirements at the local, state, and federal levels. It is a three-digit code with the format 00X. The first two digits identify the particular funding source, authority, or expenditure purpose for which a special record or report is required. The third digit is available to identify particular projects and the fiscal year of the appropriation within that funding source. Each classification is presented by a code range followed by a description.

010 to 190 **Local Projects.** Expenditures that require specialized reporting and are funded from local sources. One example is a project funded by the local service club to provide intramural activities for students in the community.

200 to 390 **State Projects.** Expenditures that require specialized reporting for categorically funded state programs.

400 to 990 **Federal Projects.** Expenditures that require specialized reporting to the federal government directly or through the state.

1000 **Noncategorical** Expenditures that do not require specialized reporting.

Level of Instruction

This classification permits expenditures to be segregated by instructional level. Many state departments of education differentiate elementary, secondary, and postsecondary costs so that they can calculate interdistrict tuition rates, compute general state aid, or both.

The following definitions correspond with levels of instruction used by the NCES Common Core of Data (CCD) surveys. However, states and school districts should use the definitions that are used in their jurisdictions. Grade span can also be changed to age span when structuring a nongraded school or school district. Each classification is presented by a code number followed by a description.

10 **Elementary.** A school organization classified as elementary by state and local practice and composed of any span of grades from prekindergarten, kindergarten, or grade 1 through grade 8.

11 **Prekindergarten.** A school organization composed entirely of any span of ages below kindergarten. This category is normally used for students identified as needing special services, although regular education prekindergarten would also be appropriate.

12 **Kindergarten.** A school organization for children in the year immediately preceding first grade.

19 **Other Elementary.** A school organization composed of any span of grades not above grade 8, except prekindergarten and kindergarten.

20 **Middle.** A school organization composed of at least three grades, usually beginning with grade 4 through grade 6 or the equivalent and usually ending with grade 8 or grade 9. Most middle school organizations presume that students finishing middle school will go on to secondary school.

30 **Secondary.** A school organization comprising any span of grades beginning with the next grade following an elementary or middle school, usually beginning with grade 7 through grade 10, and ending with or below grade 12.

37 **Elementary and Secondary Combined**. A school organization comprising elementary and secondary levels of instruction, which may also include kindergarten and prekindergarten programs.

40 **Postsecondary.** A school organization providing formal instructional programs with a curriculum designed primarily for students who have completed the requirements for a high school diploma or the equivalent. This includes programs of an academic, vocational, and

continuing professional education purpose and excludes avocational and adult education programs.

41 **Programs for Adult/Continuing.** A program for adults and out-of-school youth (typically 16 years of age and older who are not regularly enrolled in school) who have completed, interrupted, or not begun their formal education and are pursuing skills or knowledge in other than regularly prescribed courses. These include adult basic education programs and other programs for the pursuit of special interests or enrichment.

42 **Community/Junior College.** An institution of higher education that usually offers the first 2 years of college instruction and frequently grants an associate's degree, but does not grant a bachelor's degree. It is an independently organized institution (public or nonpublic), an institution that is part of a school district, or an independently organized system of junior colleges. Junior colleges offer college transfer courses and programs; vocational, technical, and semiprofessional occupational programs; or general education programs.

50 **School Wide.** For coding expenditures that cannot be clearly assigned to a specific instructional level.

Additional Classifications

Additional classifications may also be used to distinguish operational units (such as schools and school districts), subject matter, and job classifications. For guidance on these classifications, please see the Handbooks Online website at http://nces.ed.gov/programs/handbook (or search for "handbook" on the NCES home page at http://nces.ed.gov).

Chapter 7: Cost Accounting and Reporting for Educational Programs

The accounting structure used in governmental financial reporting is based on the expenditure classifications of fund, function, and object. These elements are the foundation for recording and reporting the financial data for school districts. Although this level of reporting can be used to compare district and state information, the data needs of school board members, administrators, school patrons, special-interest groups (including employees and parents), state policymakers, the media, and the public—the "data user groups" of the school district—extend beyond expenditure classifications to school and program reporting.

The Expanding Need for Greater Detail in Financial Reporting

Although the various school finance data user groups may focus on particular interests, they also require financial data describing the district and the schools within the district. State policymakers use school and program financial data (1) to ensure adequate and equitable funding of schools and programs; and (2) for state accountability and assessment programs that relate school-level expenditures to student achievement scores or other effectiveness criteria. Parents are often concerned with the financing of particular schools and programs. The media have a variety of interests, but frequently seek data regarding equitable funding of schools. School boards and administrators require financial data for internal management and to respond to the requests of other data users.

Although the typical financial accounting system is not intended to provide complete program and school cost data, a reporting system that identifies direct and indirect costs attributable to schools and programs can be developed to provide this additional level of information. To generate complete and accurate information to the school and program levels, cost accounting procedures must be applied to an appropriately structured accounting system.

Concepts of Program Cost Reporting by School

Statutory accounting and reporting requirements imposed on school districts beyond the fund, function, and object classifications may spring from legislative initiatives for accountability or from the need to provide differential funding for a particular set of programs. Such requirements are likely to establish the framework for school and program reporting and, therefore, might limit school districts' local cost objectives. However, local systems may be designed to identify more discrete costs, such as those related to science or mathematics programs for grades 9 through 12, even though the state reporting element is an aggregate of regular education programs in those grades.

In many districts, financial reporting for individual schools is a local budgetary management tool that focuses on the various types of expenditures that management has determined to control on a decentralized basis. These include expenditures for certain salaries (budgeted on an average cost per authorized position) as well as for substitutes, supplies, equipment, utilities, and field trips.

However, site-based budgeting often excludes some of the major costs of operating a school that are not within the control of the school principal. The resulting reports meet the purposes of internal management, but are of little use in public reporting to address issues of funding requirements and comparability among schools. Therefore, a reporting system that includes full costing of all school operations is recommended, including costs that are not controllable by school administrators and the allocation of costs incurred for schools but recorded centrally. An additional step is the allocation of district administrative and school board costs. Because the provision of educational services through the operation of schools is the only product of a school district, the allocation of these costs is necessary for full costing of schools and their programs.

The functions outlined earlier in this handbook provide a detailed description of expenditures. Presenting the applicable functions for each school in a district or state provides interested parties with a wide array of uniform data. Functions such as instruction have numerous support functions, which are not always included in public reporting. This shortcoming could be reduced by including subfunctions composed of gifted and talented programs, vocational programs, adult programs, or other special programs. However, this would present problems relative to dividing teacher and other costs for classes that include students from more than one of these programs: e.g., special education students in mainstream classes, secondary and adult students in vocational education classes, and English for Speakers of Other Languages (ESOL) students in regular education classes.

Many districts take the position that reporting costs by functions is program reporting. In this context, program cost reports are taken directly from the accumulated transaction amounts without the application of cost accounting procedures. However, if the desired outcome is to report the full costs of schools and/or instructional programs, cost accounting procedures must be applied to the functional accounting. The function of instruction as defined in this handbook is not intended to include all the costs necessary to provide instructional programs. Support functions must be considered in the determination of the full cost of instructional programs. This requires identifying support function costs with the instructional programs served (1) through an observable relationship, such as the district's director of exceptional student education and the exceptional student education program, or (2) by a rational allocation, such as fiscal services allocated to all programs on the basis of full-time-equivalent (FTE) teachers of the various programs.

In addition to the steps needed to display the full costs of instructional programs, adjustments to recorded transactions are necessary to accurately represent school costs. Such adjustments must be made for costs that are centrally incurred, but that represent costs for all schools or specified schools. Further adjustments are needed for the costs of services rendered by itinerant teachers or other shared personnel that might, for convenience, be recorded at a host school.

Program costs should be reported at the school level, with school reports aggregated into a district report. District reports can then be aggregated into a state-level report.

Analysis of Reported Costs

Full program costing requires that costs be accurately determined by a school prior to their allocation to its programs. Each school has its own base of cost allocation factors owing to its unique combination of programs offered, students attending, and teachers employed. These factors explain the variances reported in costs among schools.

Cost data should be presented with additional information that is useful in analysis, such as the numbers of students in the various programs of each school or the costs incurred relative to the revenues generated by programs or schools. Costs per student are likely to vary with the number of students in a school or its programs. Other useful factors include the seniority or academic rank of teachers and other personnel and varying facilities' operating costs. These factors increase in importance as the scale of analysis is narrowed to a few schools.

The Program Cost Reporting Structure

The program cost reporting structure is likely to be based on an adaptation of the cost objectives stated in this handbook. A typical reporting structure might be as follows:

- regular education, elementary;
- regular education, middle/junior;
- regular education, high school;
- special education;
- alternative education;
- vocational education, grades 6–12; and
- adult education.

Such a program structure could be expanded to recognize higher cost programs within special education and vocational education. Costs for functions such as food services, student transportation, prekindergarten early intervention, before- and after-school programs, and fee-supported programs should be accounted for by function or special project unless there is a compelling reason to establish them as programs in the reporting structure or in the allocation of indirect costs to the programs. These costs should be presented as items in the reconciliation of the program cost report to the fund expenditures total. Separate cost reports should be prepared for the general fund and for an aggregation of the special revenue funds. Some special revenue funds may not be appropriate for inclusion in the aggregated special revenue fund report. Other reports reconciling items to operating funds include expenditures for debt service and facilities.

Elements of Program Costs

Program cost reporting has the following two central elements:

- identification of direct program costs; and
- attribution of indirect costs to programs on an appropriate basis.

Program costing is not accomplished solely by the day-to-day transactions as recorded in the school district's records. In fact, such a transaction-based system would be difficult and expensive to manage because many direct cost transactions involve more than one program and the attributed indirect costs would have to be adjusted several times during the fiscal year. Effective budgetary control, an essential management tool, would become increasingly complex under such a system. A program structure that seeks to identify special education costs will be challenged to record payroll transactions for teachers when many special education students are members of regular education classes. There is a similar difficulty with teachers who teach classes composed of regular students and ESOL students. Cost reporting procedures can be applied to simplify the appropriate annual identification of teacher salaries with programs served. Indirect costs can be attributed to programs annually.

Exhibit 10 presents a sample school-level program cost report format. The columns under the heading "Direct instruction costs" provide costs by object for the function "Instruction" in each program. The "School indirect" column represents each program's allocation of support function costs recorded centrally for school services, such as centralized processing of media materials and certain custodial and maintenance costs. The "District indirect" column includes each program's allocation of support function costs that are district-level services, such as administrative technology. Note that the lower portion of the report displays a breakdown of the "School indirect" costs by function.

Exhibit 10. Program cost report format

GENERAL FUND—SCHOOL PROGRAM COST REPORT

SCHL—0041 A High School

Program		Direct instruction costs								
Category	Number	Salaries	Benefits	Purchased services	Materials and supplies	Other expenses	Capital outlay	School indirect	District indirect	Total
Regular Education, High	100	$245,858	$67,888	$22,091	$15,219	$2,855	$5,045	$190,145	$44,057	$593,158
Alternative	400	393,810	115,091	34,770	23,955	4,840	7,940	330,474	73,092	983,972
Special Education	200	135,821	38,948	27,137	5,854	1,638	1,940	95,187	22,787	329,312
Vocational Education 6-12	300	92,369	24,459	6,371	4,389	1,028	1,455	57,928	14,926	202,925
Totals		**$867,858**	**$246,386**	**$90,369**	**$49,417**	**$10,361**	**$16,380**	**$673,734**	**$154,862**	**$2,109,367**
Transportation								$85,323	$12,075	

School indirect costs are functionally distributed as reported below:

2100	Student Support Services	$108,084	2310	Board of Education	$0	2510	Fiscal Services	$0
2220	Library Services	$48,294	2320	Executive Administration	$0	2580	Administrative Technology	$0
2212	Instruction & Curriculum Development Services	$0	2400	School Administration	$177,953	2610	Operation of Building	$218,282
2213	Instructional Staff Training	$2,671	4000	Facilities Acquisition-Construction	$0	2630	Maintenance	$118,450

Use of Cost Reporting Software With Existing Data Systems

In many cases, the information needed to produce accurate school program cost reports resides in a district's existing data systems. Teacher salaries and days worked are captured in the payroll system. The ability to link teachers with programs may be found in student data systems that capture class schedules. Annual totals of other types of direct costs by school are contained in financial data files. Annual totals of support costs are captured by function for each school in financial data files. As noted earlier, some adjustments are needed to reflect each school's share of costs that are recorded in a host account for practicality.

Cost reporting software can be developed by the state education agency or school district to interface with these existing systems to expeditiously identify teachers with schools and programs. This identification allows the software to allocate the teacher's salary to schools and programs served and to compute an indirect cost attribution factor of FTE teacher by program. The cost reporting software can also interface with student data systems to compute FTE students by school and program for indirect cost attribution. Linking the teachers' assigned classrooms and a district's facilities file containing the square footage of classrooms can produce a space use attribution factor for indirect costs.

Direct Costs

In a school district setting, direct costs should be synonymous with the function of instruction. The major cost of instruction is teacher compensation, which is identified to programs through the analysis of programs taught by each teacher. Other objects of instruction should be identified to a program by the financial accounting system, although in some instances—including substitute teachers who serve more than one program and paper for reproducing classroom materials—attribution factors should be used. "FTE teachers" is an appropriate basis for the attribution of substitute teachers as a direct cost to programs. "FTE students" is appropriate for the attribution of reproduction paper as a direct cost to programs.

Indirect Costs

The annual totals of the various support functions are grouped in indirect cost pools for attribution to programs by attribution factors. Attribution factors must have a valid relationship to the support service function's relative benefit to programs. For example, student support services should be attributed to programs based on the number of FTE students in each program relative to the number of FTE students in all programs. General administration and school administration functions should be attributed to programs based on the number of FTE teachers in each program relative to the number of FTE teachers in all programs. Operation and maintenance of plant services are more appropriately attributed to programs based on the relative space that they use.

The attribution factors of students, teachers, and space suggested in the preceding paragraph are not an exhaustive listing of valid factors. They can be drawn from existing databases and, therefore, are economical to generate. More importantly, they can be readily communicated to and understood by report users.

Indirect cost pools can be allocated under the assumption that the indirect costs benefit only the instructional programs, as indicated in the preceding paragraphs. Another school of thought is that some indirect costs also benefit other indirect costs and, therefore, that a two-step process should be employed. A further refinement of this concept would be to use a set of simultaneous equations to reduce each pool to zero by allocating back and forth among programs and indirect cost pools. However, the greater precision of these refinements might be offset by the difficulties in communicating their use.

The development of a set of attribution factors (such as students, teachers, and space) for each program in the program structure for each school constitutes the general attribution table. As the name implies, the general attribution table can accurately attribute costs that apply to all programs. Sets of expenditures that relate only to certain programs at certain schools must have separate attribution tables that include attribution factors only for those schools and programs. These special tables include only a subset of the factors included in the general attribution table. Examples of such expenditures include those funded by state or federal grants that address specified schools and programs and administrative costs focused on selected programs. The cost reporting software must be able to select the appropriate schools and programs for each special table.

Summary of the Annual Program Cost Reporting Process

There are three phases in the annual program cost reporting process.

Phase I identifies teachers with programs by using the following information from district databases: (1) persons paid as teachers, the amount of compensation for the year, and the amount of time worked; and (2) class schedules that provide the number of students in each program taught by each teacher. A report of "mismatches" of these data is used to input additional teachers for whom class schedules are not produced (physical education, art, music, etc.) or to correct data. A third source of data for this phase is the attachment of classroom space used by the teacher to data drawn from the district facilities database. The outputs of Phase I are a file of teacher salaries by table for each school and program and the general attribution table of student, teacher, and space factors for each program at each school.

Phase II is the determination of the schools and programs used to define each special attribution table by specifying the schools and programs benefited by the particular categorical programs or special grants. The report preparer must enter these as subsets of the general attribution table.

Phase III is the input of cost data other than teachers' salaries. The cost reporting software input formats include record keys for attribution table, fund, school, and control number so that district expenditure data files can be electronically accessed by a crosswalk interface. Data are input and computed by attribution table to maintain the integrity of attributed indirect costs. The public reports produced are an accumulation of fund totals for general fund and special revenue funds. Edit reports and a correction process are provided for each phase of processing.

Analysis of Cost Reports

The data in the system allow the option of generating analyses, such as cost per student for each program at each school or cost per student for any report element. Assuming that a program cost report would include objects of direct costs, plus indirect costs at the school level and indirect costs at the district level, a wealth of data could be presented on a per student or percentage basis. The introduction of a program revenue file could allow calculations of cost as a percentage of revenue for each school and program.

Exhibit 11 provides a sample of a cost analysis report that can utilize either school-level or district-level data. This report provides two types of analysis: cost per student and student/staff ratio.

Exhibit 11. Cost analysis example

Cost Analysis

Schl—0000 School Board of __________ County

Program number	ADM[1]	Total direct costs	Total school costs	Total program costs	Cost per student in ADM[1]	Student/ staff ratio
100 Regular Education	781.40	$2,277,806	$3,687,363	$4,004,190	$5,124	18.74
200 Special Education	232.58	1,282,638	1,862,601	1,989,715	8,290	10.66
300 Vocational Education	64.82	250,217	365,284	395,300	5,834	13.39
Totals	**1,078.80**	**$3,810,661**	**$5,915,248**	**$6,389,205**		

[1] ADM stands for "average daily membership."

Conclusion

The demand for data is recognizable in every facet of our information age society. Public education must compete for support as one of many public programs and, in reality, one of many purposes for which consumer dollars can be spent. Program cost reporting adds to the workload of school district accounting personnel, but advances in technology and the development of electronic databases make the provision of program cost data a manageable task for most districts.

Chapter 8: Activity Fund Guidelines

Historically, little attention has been given to accounting for activity funds in school districts. The nature of activity funds, however, makes them especially vulnerable to error, misuse, and fraud. In addition, activity funds often total to large sums of money, especially when capturing the amounts that flow through an educational organization in the form of school board funds, student-generated funds, receipts and disbursements related to athletics, and the myriad cocurricular and extracurricular events sponsored by school districts today. This chapter recommends policies and procedures[6] for improving controls over these funds and promotes capturing all student activity-related monies in the district's financial records. Please note, however, that the guidelines presented are minimum controls that local school districts may expand on. In addition, since these guidelines are not generally mandated in any jurisdiction, the controls imposed in a particular state may be greater or lesser than those that are suggested here.[7]

This chapter provides a total systems view that

- defines and distinguishes the types of activity funds and their proper classification;
- delineates controls for establishing and maintaining activity funds; and
- provides initial guidance on accounting for and reporting of activity funds, including requirements resulting from Governmental Accounting Standards Board (GASB) Statement 34.

Recommended policies and procedures based on current best practices for operating activity funds are also provided.

Types of Activity Funds and Their Proper Classification[8]

Activity funds are established to direct and account for monies used to support cocurricular and extracurricular student activities. As a general rule, cocurricular activities are any kinds of school-related activities outside the regular classroom that directly add value to the formal or stated curriculum. Cocurricular activities involve a wide range of student clubs and organizations. Extracurricular activities encompass a wide variety of other district-directed activities, typified by organized sports and other nonacademic interscholastic competitions. The accounting structure should take into consideration that individual states may have their own classifications for cocurricular and extracurricular activities. For example, some states might classify music and drama events as well as academic competitions (such as debates) as

[6] The sections in this chapter relating to general policies and controls are indebted to and follow closely from the Kansas State Department of Education's guidelines. For an example of a well-constructed student activity funds operating manual, go to http://www.planning.leon.k12.fl.us/Procedures/603manual.htm.
[7] Individual states may already have directive legislation and/or advisory guidelines for the treatment of activity funds. Consequently, see each state's statutory requirements for accounting for activity fund monies. More generally, useful references related to activity fund accounting are Everett, Lows, and Johnson (1996); Governmental Accounting Standards Board (2000); and Association of School Business Officials International (2000).
[8] Detailed account code structures, classifications, and definitions, including new or revised codes, are found in chapter 6.

cocurricular, whereas other states might classify these activities as extracurricular. In either case, a system of classification for purposes of program cost accumulation and reporting is necessary.

Activity funds are unique to school districts. Two classifications are commonly recognized: student activity funds, which belong to the students and are used to support student organizations and clubs; and district activity funds, which belong to the school district and are used to support district programs. The distinction is based on the purpose of the funds (that is, the types of programs supported by the funds). Descriptions and examples of each type of fund are as follows:

- **Student activity funds.** These funds support activities that are based in student organizations. Students not only participate in the activities of the organization, but also are involved in managing and directing the organization's activities. Approval to disburse monies from the student activity fund may rest with the student organization and its sponsor, rather than the board of education. Examples of authorized student activity funds include
    - Art club
    - Auto club
    - Cheerleaders club
    - Chorus club
    - Class of 2013
    - Class of 2014
    - Class of 2015
    - Debate club
    - Drama club
    - Foreign language club
    - Journalism club
    - Marching band
    - National Honor Society
    - Pep club
    - Photography club
    - Student council
- **District activity funds.** These funds belong to the district, are used to support its cocurricular and extracurricular activities, and are administered by the school district. Approval to disburse district activity fund monies, however, rests only with the school board. In other words, the district determines how district activity fund monies are spent and which district programs receive support. Examples of authorized district activity funds include
    - Athletics
    - Band
    - Book fair
    - Lyceums
    - Music concerts
    - School plays
    - Special field trips

Although individual state laws may specify the accounting treatment for activity funds, distinguishing them in accordance with the definitions above suggests that student activity funds are fiduciary in nature whereas district activity funds represent district resources. Therefore, it is recommended that student activity funds be classified as agency (fiduciary) funds and district activity funds as special revenue funds. Student activity funds remain under the control of the school principal and are accounted for at the school site. District activity funds, in contrast, should be included with all other district funds and deposited in the district's accounts. Again, these recommended fund classifications are appropriate within the definitions provided; individual state laws may dictate the use of other types of funds.

Although a sharp distinction exists between student and district activity funds, it is the responsibility of the school district to account for all activity funds. All activity funds must be reported in the school district's financial statements and are subject to the district's audits.

Controls for Establishing and Maintaining Activity Funds[9]

The dispersed nature of student activity funds and the multiple site collections for some district activity fund revenues dictate a need for orderly controls on all activity funds. These controls include establishing lines of authority and a set of policies to guide their operation.

Lines of Authority

Proper control begins with the appropriate recognition of lines of authority over all monies handled by the district. The local board of education should adopt a set of guidelines and regulations that includes the following minimum requirements (see exhibit 12):

- **Board of Education.** The board of education should adopt policies to govern the establishment and operation of all activity funds. The district's auditors should review these policies for sound accounting and reporting principles.

- **Superintendent.** The superintendent should be directly responsible to the board of education for administering all board policies.

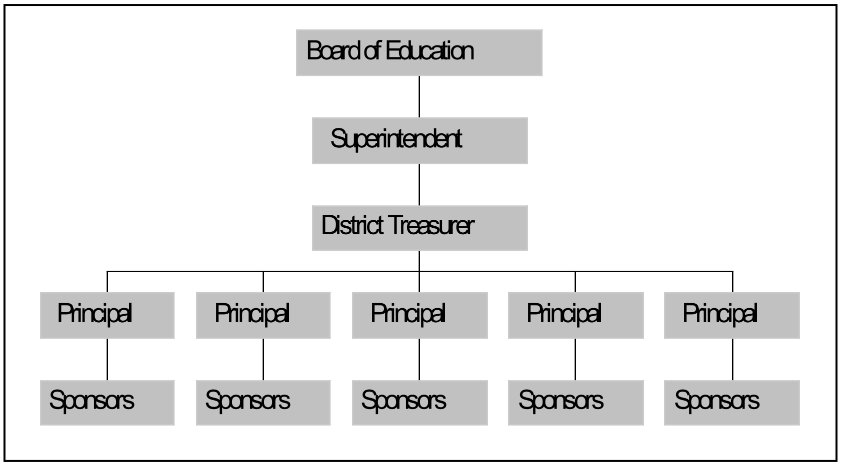
- **District Treasurer or Chief Financial Officer.** The district treasurer or chief financial officer should have overall responsibility for accounting for and reporting all funds, including district and student activity funds, to the board. This person is also responsible for implementing and enforcing appropriate internal control procedures.

- **Principal.** The principal at each school site should be designated as the activity fund supervisor for that site. The activity fund supervisor has overall responsibility for the operation of all activity funds, including collecting and depositing activity fund monies; approving disbursements of student activity fund monies; and adequately supervising all bookkeeping responsibilities. The activity fund supervisor should be a signatory to all disbursements, including checks drawn on the activity fund.

[9] These are broad, minimum controls. Each district should construct a set of specific guidelines in accordance with statutory requirements because it is impossible to prepare a general set of guidelines that meets every state's unique requirements.

- **Sponsors.** The sponsor of each student organization is responsible for supervising all activities of the organization, including approving student activity fund transactions. Sponsors should be employees of the district and under the direct control of the activity fund supervisor.

Exhibit 12. Lines of authority for student activity funds



General Policies for the Establishment and Operation of Activity Funds

General policies relating to student and district activity funds should be in writing and distributed to all activity fund supervisors, sponsors, and accounting personnel. A useful set of general policies should include at least the following requirements:

- Each activity fund should be established by specific board of education approval.
- All activity funds should be subject to sound internal control procedures.
- All activity funds should be accounted for on the same fiscal year basis as all other school district funds.
- All activity funds must be audited and subject to well-defined procedures for internal and external auditing.
- The activity fund bookkeeper or other employees responsible for handling and recording activity fund monies should be bonded by the district.
- One or more activity fund supervisors should be formally designated by the board of education.
- Each activity fund supervisor should maintain a checking account for the attendance center.
- Depositories for student activity funds should be approved by the board of education and subject to the same security requirements as those for all other board funds.

- All activity funds should operate in a way such that no payments, obligations, or indebtedness may be incurred unless the student activity fund (or account) has an equal or greater amount of assets.

- A system of purchase orders and vouchers should be applied to all activity funds. This system should require written authorization for payment and should be strictly enforced.

- A system that uses prenumbered receipt forms should be adopted for recording cash and other negotiable instruments received.

- All receipts should be deposited intact. That is, all receipts should be deposited in the form in which they are collected and should not be used for making change or disbursements of any kind.

- All receipts should be deposited daily. Undeposited receipts should be well secured.

- A system that uses prenumbered checks and multiple original signatures (no signature stamps) should be adopted as the sole means for disbursing activity fund monies.

- A perpetual inventory should be maintained on prenumbered forms, receipts, and other documents to create an adequate audit trail.

- Bank statements for activity funds should be reconciled as soon as they are received.

- Using activity fund receipts to cash checks to accommodate individuals, to make any kind of loan, to pay any form of compensation directly to employees, or to extend credit should be strictly prohibited.

- Monthly financial reports on all activity funds should be prepared and submitted to the administration and the board of education. A full reporting of activity funds should be included in the district's annual financial statements.

- Student activity fund monies should benefit those students who participate in that student activity for which such monies were accumulated.

- A board-approved process should be specified for all fundraising activities, and any fundraising event should require advance approval.

Segregation of Duties Related to Activity Funds

The volume of activity fund transactions and the amounts on deposit are substantial in most school districts. Because significant amounts of activity fund cash receipts are collected as currency, not checks, internal control procedures designed to safeguard monies collected should be especially emphasized. Although the foregoing general principles are helpful in addressing concerns about monetary safety, additional attention should be given to segregating the duties related to activity funds. Specifically, three critical duties should be segregated for internal

control purposes: (1) signing checks, (2) maintaining fund accounting records, and (3) reconciling bank statements.

The segregation of duties demands that more than one person be involved in satisfying accounting procedures. As a rule, although the school principal is appointed as activity fund supervisor, other people carry out the actual work. It is particularly important to identify, describe, and monitor the duties of the activity fund bookkeeper in relation to the segregation of duties.

The activity fund bookkeeper is typically assigned the task of collecting activity fund monies. Associated tasks include preparing the deposit slip and depositing monies. In addition, the same person generally maintains the activity fund accounting records and prepares checks for disbursements. These tasks demand adequate training and require the bookkeeper to have a thorough knowledge of fund structure; the differences between district and student activity funds; and the process of accounting, auditing, and reporting. As described earlier, the activity fund bookkeeper should be bonded. Ideally, two individuals should be involved in the counting of collected cash and they should sign receipts that summarize the cash collected.

The work of any person handling money should be subject to appropriate checks and balances. Signature controls are an important aspect of accounting procedures. Two signatures should be required on all checks that result in a disbursement from the activity fund. It is recommended that the principal of the attendance center and someone other than the activity fund bookkeeper provide these signatures. It is also recommended that such procedures be handled within the business office.

Reconciling accounting records is an additional important aspect of a system of checks and balances for the activity fund. A third person (someone other than the bookkeeper or activity fund supervisor) should be responsible for reconciling bank statements and verifying receipts and expenditures. Essential to this process are internal accounting controls over the activity fund cash collections. Adequate procedures should be established for completing an audit trail that creates sufficient documentary (physical) evidence for each step in the flow of transactions within the activity fund. These procedures include using prenumbered forms and receipts, purchase orders and vouchers, and a perpetual inventory of prenumbered forms and receipts and tickets; depositing receipts intact; and making timely deposits. State-specific statutory controls on disbursing student and district activity funds should be strictly observed.

Preparation and Review of Monthly Activity Fund Reports

A monthly report of cash receipts and disbursements to the activity fund should be prepared and reviewed by the activity fund supervisor and submitted to the school district office. Column headings in the report should include the following:

- beginning cash balance, which should agree with the ending cash balance in the prior month’s report;
- cash receipts;

- cash disbursements;
- ending cash balance;
- unpaid purchase orders; and
- unencumbered cash.

The activity fund bookkeeper should also prepare a monthly financial report for each student organization, showing the organization's cash receipts and disbursements. These reports should be reviewed by the activity fund supervisor and submitted to the student organization's sponsor. Each sponsor should then compare the activity fund bookkeeper's report with their own records. Any discrepancies should be resolved immediately. Additionally, the school finance office should periodically perform internal audits of the reports and supporting records.

The aforementioned processes are more common where cash basis accounting is allowed. Most activity fund reports follow the same function, program, object, source, and account codes required of all other funds in the district.

Application of GASB Statement 34 to Activity Funds

GASB Statement 34 made significant changes in financial reporting for all governments, including school districts. Chapters 4 and 5 discuss fully the reporting structure established by this accounting standard and its specific requirements, including the presentation of government-wide financial statements, fund financial statements, and the Required Supplementary Information. The purpose of the government-wide statements is to provide a broad overview of the governmental entity. Because fiduciary fund resources are not available for use by the government, fiduciary activities are excluded from the entity-wide financial statements. In accordance with the new reporting structure, fiduciary activities, including student activity funds, are reported only in the fund financial statements.

The impact of GASB Statement 34 on district and student activity funds is summarized below:

- If student activity funds are classified as agency (fiduciary) funds as recommended, they are not reported in the government-wide financial statements. Instead, they are reported only in the fund financial statements.

- District activity funds that are classified as governmental (special revenue) funds are consolidated with all governmental activities in the government-wide financial statements. District activity funds are also presented in the governmental fund financial statements.

- Fiduciary funds are presented in the fund financial statements by fund type. Student activity funds, as agency funds, report no operating activity and, therefore, are presented only in the statement of fiduciary fund net position.

Revenue From Enterprise and Alternative Sources

Many school districts and individual school sites derive significant revenue from enterprise activities and alternative sources: vending machines, school stores, class ring sales, and a wide

variety of fundraising activities (magazine sales, candy sales, school pictures, etc.). In addition, large sums of money are generated through interscholastic sports in the form of gate receipts and other contributions. These revenues are typically associated with activities conducted at the school level that generate revenues to be used for the benefit of the school. In many instances, particular student organizations are in charge of one or more such enterprise activities. In other instances, the district administers the revenues for its own programs. If a student organization is in charge of an enterprise activity, the money should be accounted for through that organization's activity fund. If the district determines the use of the funds, the money should be accounted for with other district funds in the district's accounts. However, in all instances, the funds should be recorded in the district's books.

School districts and student groups are also increasingly benefited by affiliated organizations that support curricular, cocurricular, and extracurricular activities. Affiliated organizations include groups such as Parent-Teacher Associations (PTAs), Parent-Teacher Organizations (PTOs), school foundations, and athletic booster clubs. Contributions by these groups often include supplies, materials, equipment, and even school facilities, such as weight training rooms.

Specific board of education policies are needed to address these issues. In the case of activity funds derived from enterprise activities, board authorization to operate the activity is needed, and all funds should be accounted for in the district's books. In the case of revenue from affiliated organizations, board authorization to receive such funds is needed. In some cases, owing to the requirements of GASB Statement 39, affiliated organizations may be included in the financial statements of the school district as discretely presented component units. (See chapter 5 for a discussion of GASB Statement 39.) Whether or not affiliated organizations are included as component units, decisions regarding allocation of their contributions should be made on the basis of whether the curricular or cocurricular program is the primary beneficiary, as well as on the basis of fundamental fairness in resource allocation.

The following examples are illustrative of issues discussed in this section:

- A high school chess club holds a fundraiser and raises $500, which is accounted for in an agency fund. The club uses $400 to buy supplies and club T-shirts. When the $500 in cash is deposited by the club sponsor or school administration, the district should debit the "cash in bank asset" account and credit $500 to the "due to student organizations" liability account within the designated agency fund (for student activity funds). When the club spends $400 for supplies, an entry should be recorded to credit cash and debit the liability account. At year's end, the district would reflect a $100 balance for the club in its agency fund.

- A school district enters into a multiyear agreement with a soft drink company for vending machine services at all of its schools. Under the contract terms, the district will receive 10 percent of sales. In the current fiscal year, the district receives $10,000 for its portion of sales. If this payment represents an advance, a portion of it should be reported as a deferred inflow on a prorated basis. Using the estimated proceeds from the contract, the district should budget the revenues within a special revenue fund during its normal budgeting process. The portion of the $10,000 payment that is not advanced should be recorded as revenue from enterprise

activities (code 1750) within the special revenue fund. It should be noted that it may be appropriate or required by state statute for this revenue to be included, instead, in the general fund. The same guidance, though, generally applies.

Summary

There are two classifications of activity funds: district and student. It is recommended that district activity funds be classified as special revenue funds and student activity funds as agency (fiduciary) funds.

As governments increasingly respond to the demands for fiscal and operational accountability, best practice dictates the creation of strong controls over activity funds, including assurances that all transactions are recorded and reported in district financial records. Additionally, at a minimum, proper lines of authority combined with strong control practices—such as segregation of duties, multiple checks and balances, requirements for annual audits, and regular financial reporting—are the elements needed to protect against error and abuse.

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Appendix A—Summary of Account Code Changes Since 2009

Summary of Account Code Changes Since 2009

Exhibit A-1. Changes to account code descriptions

Balance Sheet Accounts	
Code	**Description**
192	Deferred Expenditures/Expenses was deleted (in response to GASB Statement 63 and anticipated subsequent related statements)
193	Capitalized Bond and Other Debt Issuance Costs was revised (in response to GASB Statement 63 and anticipated subsequent related statements). It now includes bond insurance costs only.
481	Deferred Revenues was revised (in response to GASB Statement 63 and anticipated subsequent related statements). It is now Advances from Grantors (before eligibility requirements are met).
513	Unamortized Gains/Losses on Debt Refundings was revised.
711	Reserve for Inventories was deleted.
712	Reserve for Prepaid Items was deleted.
713	Reserve for Encumbrances was deleted.
714	Other Reserved Fund Balance was deleted.
720	Designated Fund Balance was deleted.
730	Unreserved Fund Balance was changed to 750 Unreserved Fund Balance.
740	Net Investment in Capital Assets was changed to 760 Net Investment in Capital Assets.
750	Restricted Net Position was changed to 770 Restricted Net Position.
760	Unrestricted Net Position was changed to 780 Unrestricted Net Position.

Revenue Source Classification	
Code	**Description**.
1970	Revenues from Other Departments in the Agency was revised

Object Classification	
Code	**Description**
330	Employee Training and Development Services was modified. The sentence “Training for other staff should be coded to the function of the employee” has been removed. Training for noninstructional staff should be coded to function 2570, Personnel Services.
561	Tuition to Other School Districts (Excluding Charter Schools) Within the State now includes tuition to in-state education service agencies.
562	Tuition to Other School Districts (Including Charter Schools) Outside the State now includes tuition to out-of-state charter schools
564	Tuition to Educational Service Agencies Within the State is now included in object 561 Tuition to Other School Districts (Excluding Charter Schools) Within the State.
565	Tuition to Educational Service Agencies Outside the State is now included in object 562 Tuition to Other School Districts (Including Charter Schools) Outside the State.
566	Tuition to Charter Schools is now reported in object 564 (if in-state) or object 562 (if out-of-state).
567	Tuition to School Districts for Voucher Payments is now broken out into three object codes: 566 Voucher Payments to Private Schools and to Other School Districts Outside the State; 567 Voucher Payments to School Districts, including Charter Schools, Within the State; and 568 Voucher Payments Directly to Individuals (when the state or school district does not know what type of school the student is attending).
790	Depreciation is now Depreciation and Amortization.
833	Bond Issuance and Other Debt-Related Costs has been revised.
890	Miscellaneous Expenditures now includes the refund of prior year’s revenues.

Exhibit A-2. New account codes

Balance Sheet Accounts	
New Code	Description
281	Intangible Assets was added (in response to GASB Statement 51).
282	Accumulated Amortization of Intangible Assets was added (in response to GASB Statement 51).
300	Deferred Outflows of Resources was added (in response to GASB Statement 63).
553	Special Termination Benefits was added (in response to GASB Statement 68).
600	Deferred Inflows of Resources was added (in response to GASB Statement 63).
710	Nonspendable Fund Balance was added (in response to GASB Statement 54).
720	Restricted Fund Balance was added (in response to GASB Statement 54).
730	Committed Fund Balance was added (in response to GASB Statement 54).
740	Assigned Fund Balance was added (in response to GASB Statement 54).
750	Unassigned Fund Balance was added (in response to GASB 54). (It was code 730.)
760	Net Investment in Capital Assets was added (in response to GASB 54). (It was code 740.)
770	Restricted Net Position was added (in response to GASB 54). (It was code 750.)
780	Unrestricted Net Position was added (in response to GASB 54). (It was code 760.)

Revenue Source Classification	
New Code	Description
3700	State Grants Through Intermediate Sources was added.

Function Classification	
New Code	Description
2170	Physical Therapy-Related Services was added.
2180	Visually Impaired/Vision Services was added.

Object Classification	
New Code	Description
564	Tuition to Charter Schools Within the State was added.
565	Tuition to Postsecondary Schools was added.
566	Voucher Payments to Private Schools and to Other School Districts Outside the State was added.
567	Voucher Payments to School Districts, including Charter Schools, Within the State was added.
568	Voucher Payments Directly to Individuals (when it is unknown what type of school ultimately received the voucher).
750	Intangible Assets was added (in response to GASB Statement 51).

Appendix B—Other Resources

Other Resources

The websites and citations listed below provide other information useful to identifying and describing federal reporting requirements and more detailed reference material relevant to education finance. These website references, as well as those that appear earlier in the text, were current at the time of publication.

Common Core of Data (CCD): http://nces.ed.gov/ccd
- CCD data files and documentation: http://nces.ed.gov/ccd/ccddata.asp
- Coordinator's Corner (information on state CCD Data Coordinators): http://nces.ed.gov/ccd/corner.asp
- Resources for CCD Data Coordinators, such as survey forms and instructions: http://nces.ed.gov/ccd/ccResources.asp

Federal program listings (programs specific to the Department of Education are in the 84.000 series; programs specific to the Department of Agriculture are in the10.000 series—specifically, the National School Lunch Program is currently coded as 10.555). All federal program codes are subject to periodic change: http://www.cfda.gov

U.S. Census Bureau website with school district finance data (F-33): http://www.census.gov/govs/school/

Financial Accounting Standards Board website for establishing and improving standards of financial accounting and reporting: http://www.fasb.org

Government Finance Officers Association website of state/provincial and local finance officers in the United States and Canada: http://www.gfoa.org

Governmental Accounting Standards Board website of standards for state and local governmental accounting and financial reporting: http://www.gasb.org

National Center for Education Statistics website: http://nces.ed.gov

National Center for Education Statistics handbooks: http://nces.ed.gov/programs/handbook

Title I, Part A website maintained by the U.S. Department of Education, Office of Elementary and Secondary Education: http://www2.ed.gov/programs/titleiparta/index.html

U.S. Department of Education, Office of Elementary and Secondary Education programs and initiatives: http://www2.ed.gov/about/offices/list/oese/programs.htm

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Appendix C—Glossary of Acronyms

Glossary of Acronyms

Included in this appendix are acronyms used throughout this handbook. Following each acronym is its definition.

ADA	Average Daily Attendance
ADM	Average Daily Membership
AICPA	American Institute of Certified Public Accountants
APB	Accounting Principles Board
ASBO	Association of School Business Officials
CAFR	Comprehensive Annual Financial Report
CCD	Common Core of Data
ESOL	English for Speakers of Other Languages
FASB	Financial Accounting Standards Board
FTE	Full-time Equivalent
GAAP	Generally Accepted Accounting Principles
GASB	Governmental Accounting Standards Board
GFOA	Government Finance Officers Association
GPFS	General-Purpose Financial Statements
IRS	Internal Revenue Service
MD&A	Management's Discussion and Analysis
NCES	National Center for Education Statistics
NPEFS	National Public Education Financial Survey
OPEB	Other Postemployment Benefits

PTA Parent-Teacher Association

PTO Parent-Teacher Organization

RSI Required Supplementary Information

SAS Statement on Auditing Standards

USDA U.S. Department of Agriculture

ZBB Zero-Based Budgeting

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Appendix D—Illustrative Financial Statements for an Independent School District

Illustrative Financial Statements for an Independent School District

These illustrative statements provide examples of the basic financial statements—and a budgetary comparison schedule for a hypothetical independent school district. They are illustrative only and should not be considered authoritative. The Management's Discussion and Analysis (MD&A), notes to the financial statements, and other required content are not presented; thus, this set of statements does not meet the minimum requirements of Generally Accepted Accounting Principles (GAAP) for financial statements and Required Supplementary Information (RSI).

Exhibits D-1 and D-2 present alternative approaches for the level of detail displayed for governmental activities in the statement of activities. Exhibit D-1 presents only the functional categories used in the fund financial statements. Exhibit D-2 illustrates a higher level of program detail. Paragraph 40 in Governmental Accounting Standards Board (GASB) Statement 34 states: "Governments are encouraged to provide data in the statement of activities at a more detailed level if the additional detail provides more useful information without significantly reducing readers' ability to understand the statement."

Exhibits D-1 through D-10 are reprinted, with permission, from a draft of *What You Should Know About Your School District's Finances: A Guide to Financial Statements* (Mead in press). These exhibits use a generic 20X2 year as the current year (rather than 20XX) to allow identification of a generic 20X1 year signifying amounts for the prior generic year. Zero dollars, or no activity, are indicated in the tables with a dash ("—").

Exhibit D-1. Sample independent school district, statement of net position, as of June 30, 20X2

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	$ 42,871,042	$ 7,664,712	$ 50,535,754
Investments	61,962,339	163,531	62,125,870
Property taxes receivable (net)	12,182,730	—	12,182,730
Due from other governments	19,968,336	2,002,921	21,971,257
Other receivables	3,688,518	4,081	3,692,599
Internal balances	615,597	(615,597)	—
Inventories	1,537,230	1,949,526	3,486,756
Nondepreciated capital assets (Note 2)	32,272,411	—	32,272,411
Depreciated capital assets (Note 2)	381,428,545	11,549,456	392,978,001
Less: Accumulated depreciation	(98,176,725)	(9,016,026)	(107,192,751)
Total assets	458,350,023	13,702,604	472,052,627
DEFERRED OUTFLOWS OF RESOURCES			
Accumulated decrease in fair value of hedging derivatives	1,754,896	—	1,754,896
Total deferred outflows of resources	1,754,896	—	1,754,896
LIABILITIES			
Accounts payable and other current liabilities	34,668,368	1,303,768	35,972,136
Long-term obligations (Note 3)			
Due within one-year			
Bonds, capital leases, and contracts	13,446,974	—	13,446,974
Accrued interest	759,880	—	759,880
Other	7,856,000	—	7,856,000
Due beyond one-year			
Bonds, capital leases, and contracts	70,958,588	—	70,958,588
Accrued interest	16,014,649	—	16,014,649
Other	23,082,406	—	23,082,406
Total liabilities	166,786,865	1,303,768	168,090,633
DEFERRED INFLOWS OF RESOURCES			
Accumulated increase in fair value of hedging derivatives	1,435,599	—	1,435,599
Total deferred inflows of resources	1,435,599	—	1,435,599
NET POSITION			
Net investment in capital assets	231,437,966	2,533,430	233,971,396
Restricted for:			
Debt service	4,133,180	—	4,133,180
School-based activities	1,396,569	—	1,396,569
Unrestricted	54,914,740	9,865,406	64,780,146
Total net position	$ 291,882,455	$ 12,398,836	$ 304,281,291

Exhibit D-2. Sample independent school district, statement of activities: for the year ended June 30, 20X2

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
					Primary Government		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
Instruction and instruction-related services	$ 238,876,955	$ 5,509,719	$ 27,631,301	—	$ (205,735,935)		$ (201,633,842)
Instructional and school leadership	34,166,630	—	3,783,490	—	(30,383,140)		(29,796,417)
Support services—student-based	37,963,791	2,986,172	4,203,974	—	(30,773,645)		(30,121,715)
Administrative support services	9,528,781	—	1,055,183	—	(8,473,598)		(8,309,966)
Support services—nonstudent-based	58,382,470	—	5,465,065	—	(52,917,405)		(51,914,837)
Community services	2,801,454	—	131,297	—	(2,670,157)		(2,622,049)
Interest on long-term debt	5,969,465	—	—	—	(5,969,465)		(5,969,465)
Total government activities	387,689,545	8,495,891	42,270,310	—	(336,923,344)		(336,923,344)
Business-type activities:							
Food services	20,596,032	4,750,350	15,849,235	$ 750,000		$ 753,553	753,553
Adult education	1,837,753	936,150	1,102,491	—		200,888	200,888
Total business-type activities	22,433,785	5,686,500	16,951,726	750,000		954,441	954,441
Total school district	$ 410,123,330	$ 14,182,391	$ 59,222,036	$ 750,000	(336,923,344)	954,441	(335,968,903)
General revenues:							
Taxes:							
Property taxes, levied for general purposes					154,108,322	—	154,108,322
Property taxes, levied for debt service					16,860,557	—	16,860,557
State aid—formula grants					176,265,211	—	176,265,211
Investment earnings					7,397,103	312,271	7,709,374
Special item—gain on sale of unimproved land					1,367,341	—	1,367,341
Total general revenues and special item					355,998,534	312,271	356,310,805
Change in net position					19,075,190	1,266,712	20,341,902
Net position—beginning					272,487,968	11,132,124	283,620,092
Net position—ending					$ 291,563,158	$ 12,398,836	$ 303,961,994

Exhibit D-3. Sample independent school district balance sheet governmental funds, as of June 30, 20X2

	General Fund	Debt Service Fund	Other Governmental Funds	Total
ASSETS				
Cash and Cash Equivalents	$ 38,369,672	$ 3,294,850	$ 1,206,520	$ 42,871,042
Investments	62,495,133	—	902,805	63,397,938
Property taxes receivable, net	10,341,512	1,841,218	—	12,182,730
Due from other governments	15,105,826	—	4,862,510	19,968,336
Accrued interest	504,757	—	—	504,757
Due from other funds	5,170,479	759,359	1,852,454	7,782,292
Other receivables	1,218,640	20,695	508,827	1,748,162
Inventories—supplies and materials	1,412,121	—	—	1,412,121
Other current assets	125,109	—	—	125,109
Total assets	$ 134,743,249	$ 5,916,122	$ 9,333,116	149,992,487
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	$ 30,270,632	$ 8,740	$ 933,434	$ 31,212,806
Due to other funds	20,845,752	—	$ 5,503,492	26,349,244
Due to other governments	10,093	—	—	10,093
Due to student groups	—	—	256,183	256,183
Deferred revenue	12,283,000	1,774,202	1,243,438	15,300,640
Amounts held for granting agencies	233,035	—	—	233,035
Total liabilities	63,642,512	1,782,942	7,936,547	73,362,001
Fund balances:				
Nonspendable: Inventories	1,412,121	—	—	1,412,121
Restricted for:				
Debt service	—	4,133,180	—	4,133,180
Early childhood programs	3,161,173	—	—	3,161,173
Committed to:				
Classroom technology			333,000	333,000
Athletic facilities			1,250,000	1,250,000
Assigned to:				
New middle school contruction	—	—	21,347,665	21,347,665
Extended day program			1,396,569	1,396,569
Unassigned	43,596,778	—	—	43,596,778
Total fund balances	48,170,072	4,133,180	24,327,234	76,630,486
Total liabilties and fund balances	$ 111,812,584	$ 5,916,122	$ 32,263,781	

Amounts reported for governmental activities in the statement of net postion are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is $413,700,956, and the accumulated depreciation is $98,176,725.		315,524,231
Property taxes receivable will be collected this year, but are not available soon enough to pay fo the current period's expenditures, and therefore are deferred in the funds.		12,182,730
An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individuall funds. The assets and liabilities of the internal service fund are included with the governmental activities.		6,022,591
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Bonds payable	80,575,118	
Accrued interest on the bonds	759,880	
Capital leases payable	1,062,861	
Contracts payable	2,767,583	
Compensated absences (vacations)	1,125,503	
Special termination benefits payable	16,491,286	
In addition, in 2001 the district issued "capital appreciation" bonds for example, the price of a bond was $640, but redeemable at maturity for $1,000). The accretion of interest on those bonds to date is	16,041,649	(118,796,880)
Total net position—governmental activities		$ 291,563,158

Exhibit D-4. Sample independent school district, statement of revenues, expenditures, and changes in fund balances – Governmental funds: For the year ended June 30, 20X2

	General Fund	Debt Service Fund	Other Governmental Funds	Total
REVENUES				
Property taxes	$ 153,862,367	$ 16,589,425	—	$ 170,451,792
Investment earnings	6,736,986	483,183	$ 176,934	7,397,103
Tuition charges	1,283,778	—	4,225,941	5,509,719
Facility rental fees	2,437,009	—	—	2,437,009
State revenues	188,019,530	—	6,135,833	194,155,363
Federal revenues	2,284,748	—	22,095,410	24,380,158
Other	107,604	—	441,559	549,163
Total revenues	354,732,022	17,072,608	33,075,677	404,880,307
EXPENDITURES				
Current:				
Instruction and instruction-related services	206,958,475	—	25,936,202	232,894,677
Instructional and school leadership	31,485,279	—	1,825,705	33,310,984
Support services—student	34,010,001	—	3,003,049	37,013,050
Administrative support services	9,290,149	—	—	9,290,149
Support services—non student-based	55,615,563	—	1,308,415	56,923,978
Community services	1,691,107	—	1,040,189	2,731,296
Debt service:				
Principal	1,160,471	11,985,914	380,561	13,526,946
Interest	378,447	3,908,791	124,107	4,411,345
Capital outlay	922,537	—	8,327	930,864
Total expenditures	341,512,029	15,894,705	33,626,555	391,033,289
Excess (deficiency) of revenues over expenditures	13,219,993	1,177,903	(550,878)	13,847,018
OTHER FINANCING SOURCES (USES)				
Proceeds from capital leases	—	—	692,245	692,245
SPECIAL ITEM				
Proceeds from sale of unimproved land	2,601,908	—	—	2,601,908
Net change in fund balance	15,821,901	1,177,903	141,367	17,141,171
Fund balances—beginning	54,938,434	3,243,534	1,307,347	59,489,315
Fund balances—ending	$ 70,760,335	$ 4,421,437	$ 1,448,714	$ 76,630,486

Exhibit D-5. Sample independent school district, reconciliation of the governmental funds statement of revenues, expenditures, and changes in fund balances with the district-wide statement of activities: For the year ended June 30, 20X2

Total net changes in fund balances—governmental funds		$ 17,481,572
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period.		
Depreciation expense	$ (13,108,809)	
Capital outlays	930,864	12,177,945
Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the statement of activities, but rather constitute long-term liabilities in the statement of net position.		(692,245)
Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds, and are instead counted as deferred tax revenues. They are, however, recorded as revenues in the statement of activities.		517,087
In the statement of activities, only the gain on the sale of the unimproved land is reported, whereas in the governmental funds, the entire proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balances by the cost of the land sold.		(1,234,567)
In the statement of activities, certain operating expenses—compensated absences (vacations) and special termination benefits (early retirement)—are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, special termination benefits paid ($10,300,426) exceeded the amounts earned ($7,906,074) by $2,394,352. Vacation used ($261,132) was less than the amounts earned ($327, 280) by $66,148.		2,328,204
Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities		13,526,946
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is the net result of two factors. First accrued interest on bonds, leases, and contracts payable decreased by $43,380. Second, $1,601,500 of additional accumulated interest was accreted on the district's "capital appreciation" bonds.		(1,558,120)
An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The net revenue of the internal service fund is reported with governmental activities		1,224,659
Change in net position of governmental activities		$ 43,771,481

Exhibit D-6. Sample independent school district, statement of net position, proprietary funds, as of June 30, 20X2

	Enterprise Funds			
	Adult Education	Food Service	Total	Internal Service Fund
ASSETS				
Current assets:				
Cash and cash equivalents	$ 1,844,430	$ 5,820,282	$ 7,664,712	—
Investments	12,781	150,750	163,531	—
Due from other governments	599,005	1,268,411	1,867,416	—
Due from other funds	—	—	—	$ 17,589,312
Other receivables	35,803	3,783	39,586	—
Inventories—supplies and materials	477,150	1,572,376	2,049,526	—
Total current assets	2,969,169	8,815,602	11,784,771	17,589,312
Noncurrent assets				
Furniture and equipment (net)	—	2,533,430	2,533,430	—
Total assets	2,969,169	11,349,032	14,318,201	17,589,312
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	96,579	484,151	580,730	—
Claims payable	—	—	—	5,700,000
Due to other funds	173,058	442,539	615,597	—
Deferred revenue	202,003	521,035	723,038	
Total current liabilities	471,640	1,447,725	1,919,365	5,700,000
Noncurrent liabilities				
Claims payable	—	—	—	5,866,721
Total liabilities	471,640	1,447,725	1,919,365	11,566,721
NET POSITION				
Net investment in capital assets	—	2,533,430	2,533,430	—
Unrestricted	2,497,529	7,367,877	9,865,406	6,022,591
Total net position	$ 2,497,529	$ 9,901,307	12,398,836	$ 6,022,591

Exhibit D-7. Sample independent school district, statement of revenues, expenses, and changes in fund net position, proprietary funds, for the year ended June 30, 20X2

	Enterprise Funds			
	Adult Education	Food Service	Total	Internal Service Fund
Operating revenues:				
Local and intermediate sources	$ 936,150	$ 4,750,350	$ 5,686,500	$ 23,864,586
Total operating revenues	936,150	4,750,350	5,686,500	23,864,586
Operating expenses				
Payroll costs	888,793	10,494,786	11,383,579	—
Professional and contract services	—	343,439	343,439	—
Supplies and materials	67,228	8,773,317	8,840,545	—
Facility rental	826,746	—	826,746	—
Other operating costs	54,986	984,490	1,039,476	22,639,927
Total operating expenses	1,837,753	20,596,032	22,433,785	22,639,927
Operating income (loss)	(901,603)	(15,845,682)	(16,747,285)	1,224,659
Nonoperating revenues (expenses)				
Investment earnings	10,861	301,410	312,271	—
Grants	1,102,491	15,849,235	16,951,726	—
Total nonoperating revenues (expenses)	1,113,352	16,150,645	17,263,997	—
Income (loss) before capital contributions	211,749	304,963	516,712	1,224,659
Capital contributions	—	750,000	750,000	—
Change in net position	211,749	1,054,963	1,266,712	1,224,659
Total net position—beginning	2,285,780	8,846,344	11,132,124	4,797,932
Total net position—ending	$ 2,497,529	$ 9,901,307	$ 12,398,836	$ 6,022,591

Exhibit D-8. Sample independent school district, statement of cash flows, proprietary funds, as of June 30, 20X2

	Enterprise Funds			
	Adult Education	Food Services	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from user charges	$1,052,578	$ 4,851,104	$ 5,903,682	—
Cash received from assessments made to other funds	—	—	—	$ 22,639,927
Cash payments to employees for services	(888,793)	(10,494,786)	(11,383,579)	—
Cash payments for insurance claims	—	—	—	(22,639,927)
Cash payments for suppliers for goods and services	(35,449)	(7,855,737)	(7,891,186)	—
Cash payments for facility use	(826,746)	—	(826,746)	—
Cash payments for other operating expenses	—	(2,593)	(2,593)	—
Net cash used for operating activities	(698,410)	(13,502,012)	(14,200,422)	—
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Nonoperating grants received	897,983	15,574,568	16,472,551	—
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital contributions	—	750,000	750,000	—
Acquisition of capital assets	—	(1,522,918)	(1,522,918)	—
Net cash used for capital and related financing activities	—	(722,918)	(772,918)	—
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(16,271)	(135,217)	(151,488)	—
Proceeds from maturities of investments	14,280	115,625	129,905	—
Interest on investments	10,042	285,446	295,488	—
Net cash provided by investing activities	8,051	265,854	273,905	—
Net increase in cash and cash equivalents	207,624	1,565,492	1,773,116	—
Cash and cash equivalents—beginning	1,636,806	4,254,790	5,891,596	—
Cash and cash equivalents—ending	$1,844,430	$ 5,820,282	7,664,712	$ —
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	$ (901,603)	$(15,845,682)	$(16,747,285)	$ 1,224,659
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	—	981,897	981,897	—
Commodities used	—	1,684,867	1,684,867	—
Changes in assets and liabilities:				
Receivables	116,428	100,754	217,182	(2,549,089)
Inventories	94,794	210,239	305,033	—
Accrued liabilities	(5,684)	(371,455)	(377,139)	1,324,430
Deferred revenue	(2,345)	(262,632)	(264,977)	—
Net cash provided by operating activities	$ (698,410)	$(13,502,012)	$(14,200,422)	$ —

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year the District received $1,684,867 of food commodities from the U.S. Department of Agriculture.

NONCASH INVESTING ACTIVITIES

During the year the District had $16,783 of unrealized gains on its enterprise funds investments.

Exhibit D-9. Sample independent school district, statement of fiduciary net position, as of June 30, 20X2

	Private-Purpose Trust	Agency Funds
ASSETS		
Cash and cash equivalents	$ 32,578	$ 101,959
Investments	247,509	—
Due from other governments	—	100,242
Accrued interest	23,853	—
Due from other funds	321,026	1,272,211
Total assets	624,966	1,474,412
LIABILITIES		
Accounts payable	1,450	14,911
Due to student groups	—	1,239,739
Due to other governments	—	219,762
Total liabilities	1,450	$ 1,474,412
NET POSITION		
Held for scholarships	623,516	
Total net assets	$ 623,516	

Exhibit D-10. Sample independent school district, budgetary comparison schedule for the general fund, for the year ended June 30, 20X2

	Budgetary Amounts		Actual	Variances—Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual
REVENUES					
Local and intermediate sources	$ 160,085,000	$ 162,140,000	$ 164,768,146	$ 2,055,000	$ 2,628,146
State program revenues	189,720,000	187,073,000	188,019,530	(2,647,000)	946,530
Federal program revenues	2,137,500	2,250,000	2,284,748	112,500	34,748
Total revenues	351,942,500	351,463,000	355,072,424	(479,500)	3,609,424
EXPENDITURES					
Current					
Instruction and instruction-related services	209,098,295	208,495,478	206,958,475	602,817	1,537,003
Instructional and school leadership	30,499,653	31,065,670	31,485,279	(566,017)	(419,609)
Support services - student	34,413,082	34,694,864	34,010,001	(281,782)	684,863
Administrative support services	10,252,023	9,627,845	9,290,149	624,178	337,696
Support services - nonstudent based	58,659,046	59,251,562	55,615,563	(592,516)	3,635,999
Community services	1,725,361	1,721,536	1,691,107	3,825	30,429
Debt services	1,531,812	1,531,812	1,538,918	—	(7,106)
Capital outlay	5,059,000	5,059,000	922,537	—	4,136,463
Total expenditures	351,238,272	351,447,767	341,512,029	(209,495)	9,935,738
Excess (deficiency) of revenues over expenditures	704,228	15,233	13,560,395	(688,995)	13,545,162
SPECIAL ITEM					
Proceed from sale of unimproved land	2,610,000	2,610,000	2,601,908	—	(8,092)
Net change in fund balances	3,314,228	2,625,233	16,162,303	(688,995)	13,537,070
Fund balance—beginning	54,938,434	54,938,434	54,938,434	—	—
Fund balance—ending	$ 58,252,662	$ 57,563,667	$ 71,100,737	$ (688,995)	$ 13,537,070

Appendix E—Criteria for Distinguishing Equipment From Supply Items

Criteria for Distinguishing Equipment From Supply Items

This appendix discusses the importance of distinguishing between supplies and equipment and suggests criteria for making that decision.

Reasons for Distinguishing Between Supplies and Equipment

Education agencies have found it useful to distinguish between supplies and equipment for the following reasons:

- The distinction may assist in deciding how to control or keep track of an item. For example, some funding programs require that all equipment items be inventoried annually. At the same time, many school districts will inventory certain items regardless of whether the items are equipment or whether they are required by law to do so.

- The distinction may bear on insurance decisions. Supplies and movable equipment are usually insured as part of the contents of buildings, whereas built-in equipment is usually insured as part of the structure.

- The distinction is important in identifying the funds with which to purchase a given item. For example, some funds, such as bond funds, typically cannot be used to purchase supplies, while other funds might exclude the purchase of equipment.

- The distinction can affect calculations of cost of operations and cost per student. Although most school districts include expenditures for supplies when calculating current operating costs, many school districts treat equipment differently. Some include all expenditures for replacement equipment in the current operating cost total, excluding the cost of new and additional equipment. Others prorate the cost of all equipment over several years. In both cases, the incorrect classification of supplies or equipment items can affect the resulting cost calculations.

- The distinction can affect the amount of state or federal aid allocated to a school district. Several funding sources use per student costs as part of their funding formula (see the preceding paragraph). Most funding programs limit the ways in which their funds may be spent, sometimes excluding either supplies or equipment from the list of eligible purchases.

A school district can take either of the following two basic approaches to distinguish between supplies and equipment:

- Adopt a predetermined list of items, classifying each entry as either a supply or an equipment item.

- Adopt a set of criteria to use in making its own classification of supply and equipment items.

Each approach is discussed in the following text.

The Disadvantages of a Supply/Equipment List

State departments of education and school districts maintain detailed lists of material items used in school district operations, identifying each entry as either a supply or an equipment item. These lists are helpful in many situations, but they have at least the following four limitations in financial reporting:

- Various state and federal aid programs offer supply/equipment categorizations that conflict with one another.
- Technological and philosophical changes in education continue at an ever-increasing pace. It is impractical to list and classify the thousands of materials and devices used in school districts today, particularly in the vocational education curricula. Therefore, without periodic updates, supply/equipment lists quickly become obsolete.
- Classifications of certain items change because of changes in price or technology. For example, most school districts classified handheld mini-calculators as equipment several years ago when they cost over $100. Now that the price of these items has dropped to the $5 to $25 range, some school districts are changing the classification of these items to supplies.
- Users tend to treat the lists as comprehensive and up-to-date, even when warned otherwise.

For these reasons, developing a universally applicable and easily updatable supply/equipment list is impractical. Instead of presenting a list that might raise as many issues as it would propose to resolve, this guide suggests that the distinction between supplies and equipment can better be made through consistent, statewide application of uniform criteria.

Criteria for Distinguishing Between Supply and Equipment Items

Documentation containing lists of items identified as supplies or equipment can never be comprehensive or exhaustive and quickly becomes outdated. To resolve the need to differentiate between supplies and equipment without exhaustive lists, the National Center for Education Statistics (NCES) has proposed a set of criteria for distinguishing equipment from supply items, listed in priority order. (See exhibit E-1.) At the first "no," the item is declared to be a supply, not equipment.

Equipment Items

An equipment item is any instrument, machine, apparatus, or set of articles that meets all of the following criteria and has an original individual cost of at least $5,000 (or no less than the district's capitalization threshold, which may be higher). The Government Finance Officers Association (GFOA) has recommended a capitalization threshold of no less than $5,000, but ultimately, the threshold limit is up to the school district or state:

- It retains its original shape, appearance, and character with use.
- It does not lose its identity through fabrication or incorporation into a different or more complex unit or substance.
- It is nonexpendable; that is, if the item is damaged or some of its parts are lost or worn out, it is more feasible to repair the item than to replace it with an entirely new unit.
- Under normal conditions of use, including reasonable care and maintenance, it can be expected to serve its principal purpose for at least 1 year.

Supply Items

An item should be classified as a supply if it does not meet all of the stated equipment criteria.

Distinguishing Between Built-In and Movable Equipment

Should a school district find it useful to classify certain equipment into built-in and movable categories, the following criteria should be used, unless the school district is otherwise bound by federal, state, or local law.

A *built-in* equipment item meets these criteria:

- It is an integral part of a building; that is, it is permanently fastened to the building, functions as a part of the building, and causes appreciable damage to the building if it is removed.
- It is permanently attached to a site and functions as part of the site (except buildings or other structures).

Built-in equipment may be incorporated into a building at the time the building is erected or at a later date. Built-in equipment is sometimes referred to as fixed equipment.

Movable equipment consists of items that meet these criteria:

- They are transportable from one location to another without appreciable damage or change to the location from which they are removed or to the location where they are installed.
- They do not function as integral parts of the building or site and are not permanently fastened or attached to the building or site.

A piece of equipment that is simply bolted or screwed to the floor, such as a heavy lathe or desk, and that can be moved as a unit once these fasteners have been removed is movable equipment. The term *movable* refers to the permanency of installation and not to size or weight.

Exhibit E-1. Criteria for distinguishing equipment from supply items

Lasts more than one year	→ no	
↓ yes		
Repair rather than replace	→ no	
↓ yes		
Independent unit rather than being incorporated into another unit item	→ no	At the first NO, the item is declared to be a SUPPLY.
↓ yes		
Cost of tagging and inventory small percent of item cost	→ no	
↓ yes		
Exceeds minimum dollar value mandated by state or other governmental unit (with due regard for group control of some items)	→ no	
↓ yes		
EQUIPMENT		

This diagram was conceived by James Bliss, Ph.D., Assistant Superintendent for Business Services, Grandview Consolidated School District, Grandview, Missouri; and Stuart Graf, CPA, of the American Institute for Certified Public Accountants (AICPA).

Selecting the Level of Control for Supplies and Equipment

School district managers carry great responsibilities for stewardship of the funds and property of the school district. They are responsible for tracking and periodically reporting on the condition of these financial and physical resources. A major decision in devising methods for carrying out these responsibilities is selecting the level of control to be applied to various kinds of supplies and equipment.

The level of control applied to any supply or equipment item can be thought of as the amount of time and effort spent in keeping track of the item and the amount of information kept about the condition and whereabouts of the item. The level of control applied to a supply or equipment item usually falls into one of three following broad categories:

- **Little or no control after purchase.** Items in this category are of such little value that the costs of implementing procedures to safeguard them, monitor their use, or track their location and condition are not justifiable. Such items include staplers and wastebaskets.

- **Group control.** Items in this category are of little individual value, but taken as a group are valuable enough to justify the cost of providing some type of control over their safety, use, location, and condition. Such items include chairs and school desks.

- **Individual control.** Items in this category are of sufficient value to justify applying control measures to each individual item. Such items usually include all relatively expensive pieces of equipment, although the minimum value of such equipment may vary with the school district.

Selecting the level of control to apply to an item is a straightforward process. Often, certain kinds of control are required by law or standard practice. For example, a federal funding program might require that all items purchased from these funds be inventoried and reported on periodically. Similarly, some funding programs require that all items of a certain minimum value be inventoried and reported on periodically. The school district may decide on its own to inventory certain kinds of items, regardless of the funding source, simply because these items or the inventory information are valuable to the school district. The level of control can range from an annual inventory to daily check-out from and return to a central storage room or station. When applied to a given item, the level should be based on the relative importance of the item to the overall operation of the school district and is usually in direct proportion to the item’s purchase, replacement, or repair cost.

It is important to note that deciding how to control an item is relevant not only to equipment but also to certain stocks of supplies. For example, any large stock of supplies—such as instruction supplies, food, or custodial supplies—should be periodically counted and checked for damage, deterioration, and pilferage. Thus, the level-of-control issue applies to all tangible goods of any significant value to the school district.

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